



ANNUAL STATEMENT

For the Year Ended December 31, 2011
of the Condition and Affairs of the

BLUE CROSS BLUE SHIELD OF MICHIGAN

NAIC Group Code.....572, 572
(Current Period) (Prior Period)

NAIC Company Code..... 54291

Employer's ID Number..... 38-2069753

Organized under the Laws of Michigan

State of Domicile or Port of Entry Michigan

Country of Domicile US

Licensed as Business Type.....Hospital, Medical & Dental Service or

Is HMO Federally Qualified? Yes [] No [X]

Indemnity

Incorporated/Organized..... February 1, 1975

Commenced Business..... January 1, 1975

Statutory Home Office

600 Lafayette East..... Detroit MI 48226
(Street and Number) (City or Town, State and Zip Code)

Main Administrative Office

600 Lafayette East..... Detroit MI 48226
(Street and Number) (City or Town, State and Zip Code)

313-225-9000
(Area Code) (Telephone Number)

Mail Address

600 Lafayette East..... Detroit MI 48226
(Street and Number or P. O. Box) (City or Town, State and Zip Code)

Primary Location of Books and Records

600 Lafayette East..... Detroit MI 48226
(Street and Number) (City or Town, State and Zip Code)

313-225-9000
(Area Code) (Telephone Number)

Internet Website Address

http://bcbsm.com/

Statutory Statement Contact

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OFFICERS

Name	Title	Name	Title
1. DANIEL J. LOEPP	President and CEO	2. MARK R. BARTLETT	Executive Vice President and CFO
3. CAROLYNN WALTON	Vice President and Treasurer	4. TRICIA A. KEITH	VP Corporate Secretary & Services

OTHER

ELIZABETH R. HAAR	Senior Vice President	ROBERT MILEWSKI	Senior Vice President
JOSEPH H. HOHNER	Executive Vice President	THOMAS L. SIMMER MD	Senior Vice President
SUSAN L. BARKELL	Senior Vice President	KENNETH R. DALLAFIOR	Senior Vice President
DARRELL E. MIDDLETON	Executive Vice President	LYNDA M. ROSSI	Senior Vice President

DIRECTORS OR TRUSTEES

JAMES G. AGEE	JON E. BARFIELD	WILLIAM H. BLACK	EDWARD J. CANFIELD DO
DIANE R. GODDEERIS RN,BSN	TERRY W. BURNS	BRIAN M. CONNOLLY	PATRICK J. DEVLIN
MARK T. GAFFNEY	SARAH W. DOYLE	THOMAS J. HADRYCH	JOHN M. HAMILTON
GERALD H. ACKER	WALLACE D. RILEY	SPENCER C. JOHNSON	GARY H. TORGOW
MELVIN L. LARSEN	DANIEL J. LOEPP	F. REMINGTON SPRAGUE MD	GARY J. MCINERNEY
LIVIO MEZZA	EDWARD G. JANKOWSKI MD	ROBERT A. PATZER	RENEE C. AXT
BOB KING	JAMES W. RICHARDS RPH	STEVEN B. COOK	JAMES U. SETTLES JR
EDWIN D. SECORD III DDS,MS	GREGORY A. SUDDERTH	S. MARTIN TAYLOR	EMERY I. KLEIN
JEAN L. ROSE	JOHN VANDERMOLEN	JOSEPH J. ASHTON	

State of.....Michigan
County of.....Wayne

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC *Annual Statement Instructions and Accounting Practices and Procedures* manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy of the enclosed statement (except for formatting differences due to electronic filing). The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

(Signature)	(Signature)	(Signature)
DANIEL J. LOEPP	MARK R. BARTLETT	CAROLYNN WALTON
1. (Printed Name)	2. (Printed Name)	3. (Printed Name)
President and CEO	Executive Vice President and CFO	Vice President and Treasurer
(Title)	(Title)	(Title)

Subscribed and sworn to before me

This day of

a. Is this an original filing? Yes [X] No []

b. If no

1. State the amendment number

2. Date filed

3. Number of pages attached

BLUE CROSS BLUE SHIELD OF MICHIGAN
ASSETS

	Current Year			Prior Year
	1	2	3	4
	Assets	Nonadmitted Assets	Net Admitted Assets (Cols. 1 - 2)	Net Admitted Assets
1. Bonds (Schedule D).....	3,120,351,380		3,120,351,380	3,114,925,181
2. Stocks (Schedule D):				
2.1 Preferred stocks.....	1,936,632		1,936,632	1,900,362
2.2 Common stocks.....	1,986,117,475		1,986,117,475	1,927,425,022
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens.....			0	
3.2 Other than first liens.....			0	
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$.....0 encumbrances).....	144,307,902		144,307,902	146,085,962
4.2 Properties held for the production of income (less \$.....0 encumbrances).....			0	
4.3 Properties held for sale (less \$.....0 encumbrances).....	8,600,621		8,600,621	11,818,202
5. Cash (\$.....(88,532,503), Sch. E-Part 1), cash equivalents (\$.....82,240,076, Sch. E-Part 2) and short-term investments (\$.....467,604,991, Sch. DA).....	461,312,564		461,312,564	116,757,325
6. Contract loans (including \$.....0 premium notes).....			0	
7. Derivatives (Schedule DB).....			0	
8. Other invested assets (Schedule BA).....	258,240,403		258,240,403	109,524,433
9. Receivables for securities.....	472,570		472,570	110,327
10. Securities lending reinvested collateral assets (Schedule DL).....	27,654,579		27,654,579	417,738,095
11. Aggregate write-ins for invested assets.....	0	0	0	0
12. Subtotals, cash and invested assets (Lines 1 to 11).....	6,008,994,126	0	6,008,994,126	5,846,284,909
13. Title plants less \$.....0 charged off (for Title insurers only).....			0	
14. Investment income due and accrued.....	30,738,252	773,939	29,964,313	29,951,262
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in course of collection.....	117,195,000		117,195,000	86,026,807
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$.....0 earned but unbilled premiums).....			0	
15.3 Accrued retrospective premiums.....			0	
16. Reinsurance:				
16.1 Amounts recoverable from reinsurers.....			0	
16.2 Funds held by or deposited with reinsured companies.....			0	
16.3 Other amounts receivable under reinsurance contracts.....			0	
17. Amounts receivable relating to uninsured plans.....	92,220,363	11,802,733	80,417,630	111,894,321
18.1 Current federal and foreign income tax recoverable and interest thereon.....	10,553,783		10,553,783	156,526,384
18.2 Net deferred tax asset.....	103,627,718		103,627,718	32,283,030
19. Guaranty funds receivable or on deposit.....			0	
20. Electronic data processing equipment and software.....	268,023,945	244,963,300	23,060,645	44,645,717
21. Furniture and equipment, including health care delivery assets (\$.....0).....	8,454,880	8,454,880	0	
22. Net adjustment in assets and liabilities due to foreign exchange rates.....			0	
23. Receivables from parent, subsidiaries and affiliates.....	88,506,933		88,506,933	92,583,505
24. Health care (\$.....97,135,494) and other amounts receivable.....	135,316,602	4,656,475	130,660,127	127,008,296
25. Aggregate write-ins for other than invested assets.....	391,073,570	22,478,585	368,594,985	270,418,528
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25).....	7,254,705,172	293,129,912	6,961,575,260	6,797,622,759
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			0	
28. TOTALS (Lines 26 and 27).....	7,254,705,172	293,129,912	6,961,575,260	6,797,622,759

DETAILS OF WRITE-INS				
1101.....			0	
1102.....			0	
1103.....			0	
1198. Summary of remaining write-ins for Line 11 from overflow page.....	0	0	0	0
1199. Totals (Lines 1101 thru 1103 plus 1198) (Line 11 above).....	0	0	0	0
2501. Miscellaneous Accounts Receivable.....	6,605,443	6,605,443	0	
2502. Prepaid and Other Assets.....	8,626,277	8,626,277	0	
2503. Interim Receivable from Providers.....	375,818,170	7,223,185	368,594,985	270,418,528
2598. Summary of remaining write-ins for Line 25 from overflow page.....	23,680	23,680	0	0
2599. Totals (Lines 2501 thru 2503 plus 2598) (Line 25 above).....	391,073,570	22,478,585	368,594,985	270,418,528

BLUE CROSS BLUE SHIELD OF MICHIGAN
LIABILITIES, CAPITAL AND SURPLUS

	Current Period			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less \$.....0 reinsurance ceded).....	550,016,080		550,016,080	607,109,810
2. Accrued medical incentive pool and bonus amounts.....	27,300,811		27,300,811	25,463,440
3. Unpaid claims adjustment expenses.....	74,008,263		74,008,263	79,317,143
4. Aggregate health policy reserves, including the liability of \$.....0 for medical loss ratio rebate per the Public Health Service Act.....	860,916,826		860,916,826	880,270,671
5. Aggregate life policy reserves.....			0	
6. Property/casualty unearned premium reserve.....			0	
7. Aggregate health claim reserves.....			0	
8. Premiums received in advance.....	5,203,048		5,203,048	
9. General expenses due or accrued.....	219,330,523		219,330,523	160,183,348
10.1 Current federal and foreign income tax payable and interest thereon (including \$.....0 on realized capital gains (losses)).....			0	
10.2 Net deferred tax liability.....			0	
11. Ceded reinsurance premiums payable.....	1,739,898		1,739,898	1,427,712
12. Amounts withheld or retained for the account of others.....	19,630,158		19,630,158	16,251,359
13. Remittances and items not allocated.....	12,774,095		12,774,095	13,265,869
14. Borrowed money (including \$.....0 current) and interest thereon \$.....817,290 (including \$.....0 current).....	1,098,570,405		1,098,570,405	694,046,626
15. Amounts due to parent, subsidiaries and affiliates.....	51,755,461		51,755,461	17,144,256
16. Derivatives.....			0	
17. Payable for securities.....	49,904		49,904	2,217,809
18. Payable for securities lending.....	27,654,579		27,654,579	417,738,095
19. Funds held under reinsurance treaties with (\$.....0 authorized reinsurers and \$.....0 unauthorized reinsurers).....			0	
20. Reinsurance in unauthorized companies.....			0	
21. Net adjustments in assets and liabilities due to foreign exchange rates.....			0	
22. Liability for amounts held under uninsured plans.....	218,380,702		218,380,702	209,390,862
23. Aggregate write-ins for other liabilities (including \$.....0 current).....	1,004,592,555	0	1,004,592,555	914,328,202
24. Total liabilities (Lines 1 to 23).....	4,171,923,308	0	4,171,923,308	4,038,155,202
25. Aggregate write-ins for special surplus funds.....	XXX	XXX	0	0
26. Common capital stock.....	XXX	XXX		
27. Preferred capital stock.....	XXX	XXX		
28. Gross paid in and contributed surplus.....	XXX	XXX		
29. Surplus notes.....	XXX	XXX		
30. Aggregate write-ins for other than special surplus funds.....	XXX	XXX	0	0
31. Unassigned funds (surplus).....	XXX	XXX	2,789,651,952	2,759,467,557
32. Less treasury stock at cost:				
32.1 .....0.000 shares common (value included in Line 26 \$.....0).....	XXX	XXX		
32.2 .....0.000 shares preferred (value included in Line 27 \$.....0).....	XXX	XXX		
33. Total capital and surplus (Lines 25 to 31 minus Line 32).....	XXX	XXX	2,789,651,952	2,759,467,557
34. Total liabilities, capital and surplus (Lines 24 and 33).....	XXX	XXX	6,961,575,260	6,797,622,759

DETAILS OF WRITE-INS

2301. Postretirement Liabilities.....	769,925,741		769,925,741	742,650,580
2302. Liability for Uncashed Checks.....	11,347,869		11,347,869	13,623,170
2303. Interim Payable to Providers.....	131,979,820		131,979,820	65,985,565
2398. Summary of remaining write-ins for Line 23 from overflow page.....	91,339,125	0	91,339,125	92,068,887
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	1,004,592,555	0	1,004,592,555	914,328,202
2501.	XXX	XXX		
2502.	XXX	XXX		
2503.	XXX	XXX		
2598. Summary of remaining write-ins for Line 25 from overflow page.....	XXX	XXX	0	0
2599. Totals (Lines 2501 thru 2503 plus 2598) (Line 25 above).....	XXX	XXX	0	0
3001.	XXX	XXX		
3002.	XXX	XXX		
3003.	XXX	XXX		
3098. Summary of remaining write-ins for Line 30 from overflow page.....	XXX	XXX	0	0
3099. Totals (Lines 3001 thru 3003 plus 3098) (Line 30 above).....	XXX	XXX	0	0

BLUE CROSS BLUE SHIELD OF MICHIGAN
STATEMENT OF REVENUE AND EXPENSES

	Current Year		Prior Year
	1 Uncovered	2 Total	3 Total
1. Member months.....	XXX.....	17,946,160	18,757,735
2. Net premium income (including \$.....0 non-health premium income).....	XXX.....	6,439,147,298	6,558,172,279
3. Change in unearned premium reserves and reserve for rate credits.....	XXX.....	(43,749,540)	16,520,156
4. Fee-for-service (net of \$.....0 medical expenses).....	XXX.....		
5. Risk revenue.....	XXX.....		
6. Aggregate write-ins for other health care related revenues.....	XXX.....	0	0
7. Aggregate write-ins for other non-health revenues.....	XXX.....	0	0
8. Total revenues (Lines 2 to 7).....	XXX.....	6,395,397,758	6,574,692,435
Hospital and Medical:			
9. Hospital/medical benefits.....		4,547,485,953	4,748,456,970
10. Other professional services.....		103,071,096	101,315,220
11. Outside referrals.....			
12. Emergency room and out-of-area.....			
13. Prescription drugs.....		861,558,346	904,772,832
14. Aggregate write-ins for other hospital and medical.....0		0	0
15. Incentive pool, withhold adjustments and bonus amounts.....		44,730,011	41,931,719
16. Subtotal (Lines 9 to 15).....	0	5,556,845,406	5,796,476,741
Less:			
17. Net reinsurance recoveries.....		278,423	2,909,605
18. Total hospital and medical (Lines 16 minus 17).....0		5,556,566,983	5,793,567,136
19. Non-health claims (net).....			
20. Claims adjustment expenses, including \$.....111,427,307 cost containment expenses.....		301,665,387	249,703,600
21. General administrative expenses.....		649,105,046	562,582,673
22. Increase in reserves for life and accident and health contracts including \$.....0 increase in reserves for life only).....		(63,103,000)	42,794,000
23. Total underwriting deductions (Lines 18 through 22).....0		6,444,234,416	6,648,647,409
24. Net underwriting gain or (loss) (Lines 8 minus 23).....	XXX.....	(48,836,658)	(73,954,974)
25. Net investment income earned (Exhibit of Net Investment Income, Line 17).....		163,500,136	162,652,317
26. Net realized capital gains or (losses) less capital gains tax of \$.....22,420,987.....		35,820,946	48,834,372
27. Net investment gains or (losses) (Lines 25 plus 26).....0		199,321,082	211,486,689
28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$.....0) (amount charged off \$.....0)].....			
29. Aggregate write-ins for other income or expenses.....0		(36,115,603)	(23,437,699)
30. Net income or (loss) after capital gains tax and before all other federal income taxes (Lines 24 plus 27 plus 28 plus 29).....	XXX.....	114,368,821	114,094,016
31. Federal and foreign income taxes incurred.....	XXX.....	74,357,413	(91,135,847)
32. Net income (loss) (Lines 30 minus 31).....	XXX.....	40,011,408	205,229,863

DETAILS OF WRITE-INS			
0601.	XXX.....		
0602.	XXX.....		
0603.	XXX.....		
0698. Summary of remaining write-ins for Line 6 from overflow page.....	XXX.....	0	0
0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above).....	XXX.....	0	0
0701.	XXX.....		
0702.	XXX.....		
0703.	XXX.....		
0798. Summary of remaining write-ins for Line 7 from overflow page.....	XXX.....	0	0
0799. Totals (Lines 0701 thru 0703 plus 0798) (Line 7 above).....	XXX.....	0	0
1401.			
1402.			
1403.			
1498. Summary of remaining write-ins for Line 14 from overflow page.....0		0	0
1499. Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above).....0		0	0
2901. Miscellaneous Income.....		(36,115,603)	(23,437,699)
2902.			
2903.			
2998. Summary of remaining write-ins for Line 29 from overflow page.....0		0	0
2999. Totals (Lines 2901 thru 2903 plus 2998) (Line 29 above).....0		(36,115,603)	(23,437,699)

BLUE CROSS BLUE SHIELD OF MICHIGAN
STATEMENT OF REVENUE AND EXPENSES (Continued)

CAPITAL AND SURPLUS ACCOUNT	1 Current Year	2 Prior Year
33. Capital and surplus prior reporting period.....	2,759,467,557	2,562,230,008
34. Net income or (loss) from Line 32.....	40,011,408	205,229,863
35. Change in valuation basis of aggregate policy and claim reserves.....		
36. Change in net unrealized capital gains and (losses) less capital gains tax of \$.0.....	75,558,503	124,884,968
37. Change in net unrealized foreign exchange capital gain or (loss).....		
38. Change in net deferred income tax.....	76,748,682	(106,250,325)
39. Change in nonadmitted assets.....	(192,897,813)	46,714,571
40. Change in unauthorized reinsurance.....		
41. Change in treasury stock.....		
42. Change in surplus notes.....		
43. Cumulative effect of changes in accounting principles.....		
44. Capital changes:		
44.1 Paid in.....		
44.2 Transferred from surplus (Stock Dividend).....		
44.3 Transferred to surplus.....		
45. Surplus adjustments:		
45.1 Paid in.....		
45.2 Transferred to capital (Stock Dividend).....		
45.3 Transferred from capital.....		
46. Dividends to stockholders.....		
47. Aggregate write-ins for gains or (losses) in surplus.....	30,763,615	(73,341,528)
48. Net change in capital and surplus (Lines 34 to 47).....	30,184,395	197,237,549
49. Capital and surplus end of reporting period (Line 33 plus 48).....	2,789,651,952	2,759,467,557

DETAILS OF WRITE-INS		
4701. Additional Pension Liability.....	(24,661,419)	(73,341,528)
4702. Admitted DTA's due to SSAP 10R.....	55,425,034	
4703.		
4798. Summary of remaining write-ins for Line 47 from overflow page.....	0	0
4799. Totals (Lines 4701 thru 4703 plus 4798) (Line 47 above).....	30,763,615	(73,341,528)

BLUE CROSS BLUE SHIELD OF MICHIGAN
CASH FLOW

	1 Current Year	2 Prior Year
CASH FROM OPERATIONS		
1. Premiums collected net of reinsurance.....	6,413,494,339	6,560,940,184
2. Net investment income.....	155,326,157	151,549,849
3. Miscellaneous income.....		
4. Total (Lines 1 through 3).....	6,568,820,496	6,712,490,033
5. Benefit and loss related payments.....	5,611,823,342	5,855,881,133
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts.....		
7. Commissions, expenses paid and aggregate write-ins for deductions.....	719,466,004	606,704,840
8. Dividends paid to policyholders.....		
9. Federal and foreign income taxes paid (recovered) net of \$.0 tax on capital gains (losses).....	(49,194,201)	81,966,161
10. Total (Lines 5 through 9).....	6,282,095,145	6,544,552,134
11. Net cash from operations (Line 4 minus Line 10).....	286,725,351	167,937,899
CASH FROM INVESTMENTS		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds.....	6,451,016,856	3,713,668,408
12.2 Stocks.....	382,836,696	254,008,929
12.3 Mortgage loans.....		
12.4 Real estate.....		
12.5 Other invested assets.....	7,033,162	
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments.....	(41,365)	44,734
12.7 Miscellaneous proceeds.....		1,744,232
12.8 Total investment proceeds (Lines 12.1 to 12.7).....	6,840,845,349	3,969,466,303
13. Cost of investments acquired (long-term only):		
13.1 Bonds.....	6,421,639,113	3,713,348,621
13.2 Stocks.....	330,015,726	351,382,194
13.3 Mortgage loans.....		
13.4 Real estate.....	18,875,760	10,779,272
13.5 Other invested assets.....	220,550,916	6,423,122
13.6 Miscellaneous applications.....	2,530,148	
13.7 Total investments acquired (Lines 13.1 to 13.6).....	6,993,611,663	4,081,933,209
14. Net increase (decrease) in contract loans and premium notes.....		
15. Net cash from investments (Line 12.8 minus Lines 13.7 minus Line 14).....	(152,766,314)	(112,466,906)
CASH FROM FINANCING AND MISCELLANEOUS SOURCES		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes.....		
16.2 Capital and paid in surplus, less treasury stock.....		
16.3 Borrowed funds.....	404,362,533	(14,575,657)
16.4 Net deposits on deposit-type contracts and other insurance liabilities.....		
16.5 Dividends to stockholders.....		
16.6 Other cash provided (applied).....	(193,766,331)	15,339,816
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6).....	210,596,202	764,159
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		
18. Net change in cash, cash equivalents and short-term investments (Line 11 plus Line 15 plus Line 17).....	344,555,239	56,235,152
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year.....	116,757,325	60,522,173
19.2 End of year (Line 18 plus Line 19.1).....	461,312,564	116,757,325
Note: Supplemental disclosures of cash flow information for non-cash transactions:		
20.0001		

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1 - PREMIUMS

		1	2	3	4
Line of Business		Direct Business	Reinsurance Assumed	Reinsurance Ceded	Net Premium Income (Cols. 1 + 2 - 3)
1.	Comprehensive (hospital and medical).....	4,465,398,485		1,539,266	4,463,859,219
2.	Medicare supplement.....	291,475,528			291,475,528
3.	Dental only.....	81,517,452			81,517,452
4.	Vision only.....	17,237,455			17,237,455
5.	Federal employees health benefits plan.....	375,748,499			375,748,499
6.	Title XVIII - Medicare.....	869,700,952			869,700,952
7.	Title XIX - Medicaid.....				0
8.	Other health.....	339,608,193			339,608,193
9.	Health subtotal (Lines 1 through 8).....	6,440,686,564	0	1,539,266	6,439,147,298
10.	Life.....				0
11.	Property/casualty.....				0
12.	Totals (Lines 9 to 11).....	6,440,686,564	0	1,539,266	6,439,147,298

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2 - CLAIMS INCURRED DURING THE YEAR

	1	2	3	4	5	6	7	8	9	10
	Total	Comprehensive (Hospital and Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Other Health	Other Non-Health
1. Payments during the year:										
1.1 Direct.....	5,564,411,107	3,707,234,539	448,211,944	62,827,257	12,937,545	343,474,371	748,096,734		241,628,717	
1.2 Reinsurance assumed.....	0									
1.3 Reinsurance ceded.....	278,423	278,423								
1.4 Net.....	5,564,132,684	3,706,956,116	448,211,944	62,827,257	12,937,545	343,474,371	748,096,734	0	241,628,717	0
2. Paid medical incentive pools and bonuses.....	42,892,640	42,892,640								
3. Claim liability December 31, current year from Part 2A:										
3.1 Direct.....	550,016,080	310,836,081	66,625,882	12,022,500	932,759	31,451,543	108,335,882		19,811,433	
3.2 Reinsurance assumed.....	0									
3.3 Reinsurance ceded.....	0									
3.4 Net.....	550,016,080	310,836,081	66,625,882	12,022,500	932,759	31,451,543	108,335,882	0	19,811,433	0
4. Claim reserve December 31, current year from Part 2D:										
4.1 Direct.....	0									
4.2 Reinsurance assumed.....	0									
4.3 Reinsurance ceded.....	0									
4.4 Net.....	0	0	0	0	0	0	0	0	0	0
5. Accrued medical incentive pools and bonuses, current year.....	27,300,811	27,300,811								
6. Net healthcare receivables (a).....	(4,798,018)	(4,798,018)								
7. Amounts recoverable from reinsurers December 31, current year.....	0									
8. Claim liability December 31, prior year from Part 2A:										
8.1 Direct.....	607,109,810	381,941,782	64,720,306	4,265,630	739,193	25,335,851	108,054,224		22,052,824	
8.2 Reinsurance assumed.....	0									
8.3 Reinsurance ceded.....	0									
8.4 Net.....	607,109,810	381,941,782	64,720,306	4,265,630	739,193	25,335,851	108,054,224	0	22,052,824	0
9. Claim reserve December 31, prior year from Part 2D:										
9.1 Direct.....	0									
9.2 Reinsurance assumed.....	0									
9.3 Reinsurance ceded.....	0									
9.4 Net.....	0	0	0	0	0	0	0	0	0	0
10. Accrued medical incentive pools and bonuses, prior year.....	25,463,440	25,463,440								
11. Amounts recoverable from reinsurers December 31, prior year.....	0									
12. Incurred benefits:										
12.1 Direct.....	5,512,115,395	3,640,926,856	450,117,520	70,584,127	13,131,111	349,590,063	748,378,392	0	239,387,326	0
12.2 Reinsurance assumed.....	0	0	0	0	0	0	0	0	0	0
12.3 Reinsurance ceded.....	278,423	278,423	0	0	0	0	0	0	0	0
12.4 Net.....	5,511,836,972	3,640,648,433	450,117,520	70,584,127	13,131,111	349,590,063	748,378,392	0	239,387,326	0
13. Incurred medical incentive pools and bonuses.....	44,730,011	44,730,011	0	0	0	0	0	0	0	0

(a) Excludes \$.0 loans or advances to providers not yet expensed.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2A - CLAIMS LIABILITY END OF CURRENT YEAR

	1	2	3	4	5	6	7	8	9	10
	Total	Comprehensive (Medical and Hospital)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Other Health	Other Non-Health
1. Reported in process of adjustment:										
1.1 Direct.....	15,205,811	1,835,141	393,352			185,686	12,415,346		376,286	
1.2 Reinsurance assumed.....	0									
1.3 Reinsurance ceded.....	0									
1.4 Net.....	15,205,811	1,835,141	393,352	0	0	185,686	12,415,346	0	376,286	0
2. Incurred but unreported:										
2.1 Direct.....	534,810,269	309,000,940	66,232,530	12,022,500	932,759	31,265,857	95,920,536		19,435,147	
2.2 Reinsurance assumed.....	0									
2.3 Reinsurance ceded.....	0									
2.4 Net.....	534,810,269	309,000,940	66,232,530	12,022,500	932,759	31,265,857	95,920,536	0	19,435,147	0
3. Amounts withheld from paid claims and capitations:										
3.1 Direct.....	0									
3.2 Reinsurance assumed.....	0									
3.3 Reinsurance ceded.....	0									
3.4 Net.....	0	0	0	0	0	0	0	0	0	0
4. Totals:										
4.1 Direct.....	550,016,080	310,836,081	66,625,882	12,022,500	932,759	31,451,543	108,335,882	0	19,811,433	0
4.2 Reinsurance assumed.....	0	0	0	0	0	0	0	0	0	0
4.3 Reinsurance ceded.....	0	0	0	0	0	0	0	0	0	0
4.4 Net.....	550,016,080	310,836,081	66,625,882	12,022,500	932,759	31,451,543	108,335,882	0	19,811,433	0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2B - ANALYSIS OF CLAIMS UNPAID - PRIOR YEAR - NET OF REINSURANCE

Line of Business	Claims Paid During the Year		Claim Reserve and Claim Liability December 31 of Current Year		5	6
	1 On Claims Incurred Prior to January 1 of Current Year	2 On Claims Incurred During the Year	3 On Claims Unpaid December 31 of Prior Year	4 On Claims Incurred During the Year	Claims Incurred in Prior Years (Columns 1 + 3)	Estimated Claim Reserve and Claim Liability December 31 of Prior Year
1. Comprehensive (hospital and medical).....	298,324,185	3,470,829,444	16,807,409	294,028,672	315,131,594	381,941,783
2. Medicare supplement.....	51,308,299	396,903,645	3,719,391	62,906,490	55,027,690	64,720,306
3. Dental only.....	4,316,294	58,510,963	145,629	11,876,871	4,461,923	4,265,630
4. Vision only.....	878,648	12,058,897	1,808	930,951	880,456	739,193
5. Federal employees health benefits plan.....	25,342,657	318,131,714	239,232	31,212,311	25,581,889	25,335,850
6. Title XVIII - Medicare.....	78,885,072	669,211,662	6,488,236	101,847,646	85,373,308	108,054,224
7. Title XIX - Medicaid.....					0	
8. Other health.....	12,929,723	228,698,994	335,612	19,475,822	13,265,335	22,052,824
9. Health subtotal (Lines 1 to 8).....	471,984,878	5,154,345,319	27,737,317	522,278,763	499,722,195	607,109,810
10. Healthcare receivables (a).....		57,399,494			0	
11. Other non-health.....					0	
12. Medical incentive pools and bonus amounts.....	3,155,314	39,737,326	338,513	26,962,298	3,493,827	25,463,440
13. Totals (Lines 9 - 10 + 11 + 12).....	475,140,192	5,136,683,151	28,075,830	549,241,061	503,216,022	632,573,250

(a) Excludes \$.00 loans or advances to providers not yet expensed.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - GRAND TOTAL

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....	526,234	2,688	1,020	1,222	
2. 2007.....	5,102,894	516,415	2,400	(2,371)	716
3. 2008.....	XXX	5,607,554	561,363	(5,737)	698
4. 2009.....	XXX	XXX	5,786,618	539,880	848
5. 2010.....	XXX	XXX	XXX	5,304,210	472,879
6. 2011.....	XXX	XXX	XXX	XXX	5,136,683

SECTION B - INCURRED HEALTH CLAIMS - GRAND TOTAL

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....	508,206	28,709	3,097	1,171	
2. 2007.....	5,177,181	473,068	27,623	(2,202)	420
3. 2008.....	XXX	5,606,089	513,376	15,150	191
4. 2009.....	XXX	XXX	5,851,656	499,444	23,773
5. 2010.....	XXX	XXX	XXX	5,280,007	435,743
6. 2011.....	XXX	XXX	XXX	XXX	5,096,438

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - GRAND TOTAL

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expense	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2007.....	6,169,179	5,620,053	38	0.0	5,620,091	91.1			5,620,091	91.1
2. 2008.....	6,806,040	6,163,878	38	0.0	6,163,916	90.6	849	109	6,164,874	90.6
3. 2009.....	6,986,394	6,327,344	45	0.0	6,327,389	90.6	2,976	382	6,330,747	90.6
4. 2010.....	6,574,692	5,777,089	25,419	0.4	5,802,508	88.3	23,913	3,066	5,829,487	88.7
5. 2011.....	6,395,398	5,194,084	276,124	5.3	5,470,208	85.5	549,579	70,452	6,090,239	95.2

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - HOSPITAL AND MEDICAL

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....	373,085	(918)	720	445	
2. 2007.....	3,832,620	335,330	906	369	1,189
3. 2008.....	XXX	3,924,903	335,350	(2,719)	1,943
4. 2009.....	XXX	XXX	3,921,109	324,121	(175)
5. 2010.....	XXX	XXX	XXX	3,660,743	298,521
6. 2011.....	XXX	XXX	XXX	XXX	3,453,167

SECTION B - INCURRED HEALTH CLAIMS - HOSPITAL AND MEDICAL

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....	337,193	486	668	399	
2. 2007.....	3,857,460	304,939	1,555	541	1,047
3. 2008.....	XXX	3,928,923	304,614	95	1,830
4. 2009.....	XXX	XXX	3,975,682	295,111	178
5. 2010.....	XXX	XXX	XXX	3,699,069	264,690
6. 2011.....	XXX	XXX	XXX	XXX	3,417,635

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - HOSPITAL AND MEDICAL

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2007.....	4,791,046	4,170,415	64	0.0	4,170,479	87.0			4,170,479	87.0
2. 2008.....	4,930,917	4,259,478	104	0.0	4,259,582	86.4	809	104	4,260,495	86.4
3. 2009.....	4,809,234	4,245,056	(9)	(0.0)	4,245,047	88.3	2,244	288	4,247,579	88.3
4. 2010.....	4,592,350	3,959,264	16,047	0.4	3,975,311	86.6	13,754	1,763	3,990,828	86.9
5. 2011.....	4,422,943	3,510,567	185,626	5.3	3,696,193	83.6	321,329	41,192	4,058,714	91.8

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - MEDICARE SUPPLEMENT

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....	53,494	780	82	51	
2. 2007.....	330,193	54,683	1,155	201	42
3. 2008.....	XXX	338,940	54,112	984	144
4. 2009.....	XXX	XXX	363,152	47,483	820
5. 2010.....	XXX	XXX	XXX	379,129	50,303
6. 2011.....	XXX	XXX	XXX	XXX	396,904

SECTION B - INCURRED HEALTH CLAIMS - MEDICARE SUPPLEMENT

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....	47,183	792	81	45	
2. 2007.....	334,072	49,478	1,108	185	37
3. 2008.....	XXX	349,467	48,598	1,026	137
4. 2009.....	XXX	XXX	364,395	43,025	890
5. 2010.....	XXX	XXX	XXX	387,588	45,809
6. 2011.....	XXX	XXX	XXX	XXX	403,244

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - MEDICARE SUPPLEMENT

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2007.....	224,714	386,273	2	0.0	386,275	171.9			386,275	171.9
2. 2008.....	255,536	394,180	8	0.0	394,188	154.3	33	4	394,225	154.3
3. 2009.....	265,543	411,455	44	0.0	411,499	155.0	590	76	412,165	155.2
4. 2010.....	277,850	429,432	2,704	0.6	432,136	155.5	3,096	397	435,629	156.8
5. 2011.....	290,019	396,904	21,336	5.4	418,240	144.2	62,906	8,064	489,210	168.7

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - DENTAL ONLY

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....	.....3,132	.....57	.....1	.....3	.....
2. 2007.....	.....59,408	.....3,107	.....61	.....2	.....2
3. 2008.....	.....XXX	.....67,500	.....3,874	.....67	.....(2)
4. 2009.....	.....XXX	.....XXX	.....67,985	.....4,218	.....61
5. 2010.....	.....XXX	.....XXX	.....XXX	.....70,429	.....4,255
6. 2011.....	.....XXX	.....XXX	.....XXX	.....XXX	.....58,511

SECTION B - INCURRED HEALTH CLAIMS - DENTAL ONLY

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....	.....2,996	.....58	.....	.....3	.....
2. 2007.....	.....59,738	.....3,244	.....54	.....2	.....1
3. 2008.....	.....XXX	.....66,957	.....3,448	.....60	.....(1)
4. 2009.....	.....XXX	.....XXX	.....68,399	.....3,777	.....49
5. 2010.....	.....XXX	.....XXX	.....XXX	.....71,997	.....3,472
6. 2011.....	.....XXX	.....XXX	.....XXX	.....XXX	.....67,063

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - DENTAL ONLY

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2007.....	.....73,954	.....62,580	.....	.....0.0	.....62,580	.....84.6	.....	.....	.....62,580	.....84.6
2. 2008.....	.....82,779	.....71,440	.....	.....0.0	.....71,440	.....86.3	.....	.....	.....71,440	.....86.3
3. 2009.....	.....82,387	.....72,263	.....3	.....0.0	.....72,266	.....87.7	.....	.....	.....72,266	.....87.7
4. 2010.....	.....87,356	.....74,684	.....229	.....0.3	.....74,913	.....85.8	.....146	.....19	.....75,078	.....85.9
5. 2011.....	.....81,339	.....58,511	.....3,145	.....5.4	.....61,656	.....75.8	.....11,877	.....1,523	.....75,056	.....92.3

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - VISION ONLY

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....	702	2		0	
2. 2007.....	10,194	660	2	0	0
3. 2008.....	XXX	12,719	753	4	0
4. 2009.....	XXX	XXX	12,380	840	1
5. 2010.....	XXX	XXX	XXX	12,192	877
6. 2011.....	XXX	XXX	XXX	XXX	12,059

SECTION B - INCURRED HEALTH CLAIMS - VISION ONLY

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....	523	11			
2. 2007.....	10,421	620	10	0	0
3. 2008.....	XXX	12,795	620	10	0
4. 2009.....	XXX	XXX	12,293	658	1
5. 2010.....	XXX	XXX	XXX	12,544	798
6. 2011.....	XXX	XXX	XXX	XXX	12,332

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - VISION ONLY

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2007.....	13,844	10,856		0.0	10,856	78.4			10,856	78.4
2. 2008.....	17,485	13,476		0.0	13,476	77.1			13,476	77.1
3. 2009.....	18,278	13,221		0.0	13,221	72.3			13,221	72.3
4. 2010.....	18,679	13,069	47	0.4	13,116	70.2	2		13,118	70.2
5. 2011.....	17,240	12,059	648	5.4	12,707	73.7	931	119	13,757	79.8

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIUM

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....	25,950	838	172	18	
2. 2007.....	257,922	30,134	1,186	(37)	133
3. 2008.....	XXX	272,338	34,422	(34)	47
4. 2009.....	XXX	XXX	284,297	30,328	(69)
5. 2010.....	XXX	XXX	XXX	311,919	25,231
6. 2011.....	XXX	XXX	XXX	XXX	318,132

SECTION B - INCURRED HEALTH CLAIMS - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIUM

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....	50,501	25,412	192	20	
2. 2007.....	237,466	34,398	25,684	(41)	150
3. 2008.....	XXX	245,952	37,723	17,936	61
4. 2009.....	XXX	XXX	259,196	33,991	22,673
5. 2010.....	XXX	XXX	XXX	275,965	28,642
6. 2011.....	XXX	XXX	XXX	XXX	298,065

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIUM

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2007.....	314,059	289,338	7	0.0	289,345	92.1			289,345	92.1
2. 2008.....	330,689	306,773	3	0.0	306,776	92.8	7	1	306,784	92.8
3. 2009.....	348,123	314,556	(4)	(0.0)	314,552	90.4	25	3	314,580	90.4
4. 2010.....	353,943	337,150	1,356	0.4	338,506	95.6	207	27	338,740	95.7
5. 2011.....	375,991	318,132	17,101	5.4	335,233	89.2	31,212	4,001	370,446	98.5

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - TITLE XVIII - MEDICARE

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....	44,972	1,929	45	705	
2. 2007.....	435,359	74,119	(910)	(2,906)	(650)
3. 2008.....	XXX	776,585	102,642	(4,040)	(1,435)
4. 2009.....	XXX	XXX	933,720	118,792	209
5. 2010.....	XXX	XXX	XXX	637,135	80,761
6. 2011.....	XXX	XXX	XXX	XXX	669,212

SECTION B - INCURRED HEALTH CLAIMS - TITLE XVIII - MEDICARE

12.XV

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....	41,619	1,930	2,136	704	
2. 2007.....	493,845	60,954	(788)	(2,889)	(815)
3. 2008.....	XXX	811,069	88,059	(3,977)	(1,835)
4. 2009.....	XXX	XXX	966,519	108,242	(16)
5. 2010.....	XXX	XXX	XXX	601,151	79,067
6. 2011.....	XXX	XXX	XXX	XXX	671,977

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - TITLE XVIII - MEDICARE

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2007.....	532,024	505,011	(35)	(0.0)	504,976	94.9			504,976	94.9
2. 2008.....	941,815	873,752	(77)	(0.0)	873,675	92.8			873,675	92.8
3. 2009.....	1,182,572	1,052,721	11	0.0	1,052,732	89.0	117	15	1,052,864	89.0
4. 2010.....	935,678	717,896	4,341	0.6	722,237	77.2	6,372	817	729,426	78.0
5. 2011.....	868,258	669,212	35,974	5.4	705,186	81.2	101,848	13,056	820,090	94.5

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - TITLE XIX - MEDICAID

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....	NONE				
2. 2007.....					
3. 2008.....		XXX			
4. 2009.....		XXX	XXX		
5. 2010.....		XXX	XXX	XXX	
6. 2011.....		XXX	XXX	XXX	

SECTION B - INCURRED HEALTH CLAIMS - TITLE XIX - MEDICAID

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....	NONE				
2. 2007.....					
3. 2008.....		XXX			
4. 2009.....		XXX	XXX		
5. 2010.....		XXX	XXX	XXX	
6. 2011.....		XXX	XXX	XXX	

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - TITLE XIX - MEDICAID

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2007.....					NONE	0.0			0	0.0
2. 2008.....				0.0		0.0			0	0.0
3. 2009.....				0.0		0.0			0	0.0
4. 2010.....				0.0		0.0			0	0.0
5. 2011.....				0.0		0.0			0	0.0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - OTHER

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....	24,899				
2. 2007.....	177,198	18,382			
3. 2008.....	XXX	214,569	30,210		
4. 2009.....	XXX	XXX	203,975	14,098	
5. 2010.....	XXX	XXX	XXX	232,665	12,930
6. 2011.....	XXX	XXX	XXX	XXX	228,699

SECTION B - INCURRED HEALTH CLAIMS - OTHER

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....	28,171				
2. 2007.....	184,179	19,435			
3. 2008.....	XXX	190,926	30,314		
4. 2009.....	XXX	XXX	205,172	14,640	
5. 2010.....	XXX	XXX	XXX	231,693	13,265
6. 2011.....	XXX	XXX	XXX	XXX	226,122

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - OTHER

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2007.....	219,538	195,580		0.0	195,580	89.1			195,580	89.1
2. 2008.....	246,819	244,779		0.0	244,779	99.2			244,779	99.2
3. 2009.....	280,257	218,072		0.0	218,072	77.8			218,072	77.8
4. 2010.....	308,836	245,594	695	0.3	246,289	79.7	336	43	246,668	79.9
5. 2011.....	339,608	228,699	12,294	5.4	240,993	71.0	19,476	2,497	262,966	77.4

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2D - AGGREGATE RESERVE FOR ACCIDENT AND HEALTH CONTRACTS ONLY

	1	2	3	4	5	6	7	8	9
	Total	Comprehensive (Hospital and Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefit Plan	Title XVIII Medicare	Title XIX Medicaid	Other
POLICY RESERVE									
1. Unearned premium reserves.....	196,758,803	158,752,313	29,194,666	1,694,709	199,353	211,803	6,705,959		
2. Additional policy reserves (a).....	339,243,682	155,367,131	180,086,316	3,685,091	105,144				
3. Reserve for future contingent benefits.....	0								
4. Reserve for rate credits or experience rating refunds (including \$.....0) for investment income.....	324,914,341	307,963,828		3,736,848	729,936	8,012,557	4,471,172		
5. Aggregate write-ins for other policy reserves.....	0	0	0	0	0	0	0	0	0
6. Totals (gross).....	860,916,826	622,083,272	209,280,982	9,116,648	1,034,433	8,224,360	11,177,131	0	0
7. Reinsurance ceded.....	0								
8. Totals (net) (Page 3, Line 4).....	860,916,826	622,083,272	209,280,982	9,116,648	1,034,433	8,224,360	11,177,131	0	0
CLAIM RESERVE									
9. Present value of amounts not yet due on claims.....	0								
10. Reserve for future contingent benefits.....	0								
11. Aggregate write-ins for other claim reserves.....	0	0	0	0	0	0	0	0	0
12. Totals (gross).....	0	0	0	0	0	0	0	0	0
13. Reinsurance ceded.....	0								
14. Totals (net) (Page 3, Line 7).....	0	0	0	0	0	0	0	0	0
DETAILS OF WRITE-INS									
0501.	0								
0502.	0								
0503.	0								
0598. Summary of remaining write-ins for Line 5 from overflow page.....	0	0	0	0	0	0	0	0	0
0599. Totals (Lines 0501 thru 0503 plus 0598) (Line 5 above).....	0	0	0	0	0	0	0	0	0
1101.	0								
1102.	0								
1103.	0								
1198. Summary of remaining write-ins for Line 11 from overflow page.....	0	0	0	0	0	0	0	0	0
1199. Totals (Lines 1101 thru 1103 plus 1198) (Line 11 above).....	0	0	0	0	0	0	0	0	0

(a) Includes \$.....339,243,682 premium deficiency reserve.

BLUE CROSS BLUE SHIELD OF MICHIGAN
UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - ANALYSIS OF EXPENSES

	Claim Adjustment Expenses		3	4	5
	1 Cost Containment Expenses	2 Other Claim Adjustment Expenses			
			General Administrative Expenses	Investment Expenses	Total
1. Rent (\$.....47,097,661 for occupancy of own building).....	.....7,297,345	.....13,827,146	.....29,893,086	.....66,124	.....51,083,701
2. Salaries, wages and other benefits.....	.....104,956,587	.....161,172,384	.....379,888,787	.....940,118	.....646,957,876
3. Commissions (less \$.....0 ceded plus \$.....0 assumed).....			.....188,745,373		.....188,745,373
4. Legal fees and expenses.....			.....28,618,816		.....28,618,816
5. Certifications and accreditation fees.....	.....10,100				.....10,100
6. Auditing, actuarial and other consulting services.....	.....6,130,355	.....820,212	.....137,761,111		.....144,711,678
7. Traveling expenses.....	.....2,090,983	.....835,223	.....9,489,900	.....10,895	.....12,427,001
8. Marketing and advertising.....			.....14,759,341		.....14,759,341
9. Postage, express and telephone.....	.....1,801,511	.....11,065,387	.....7,780,388	.....1,566	.....20,648,852
10. Printing and office supplies.....	.....465,236	.....2,063,925	.....4,422,415	.....42,296	.....6,993,872
11. Occupancy, depreciation and amortization.....	.....10,876	.....4,638	.....12,306,592		.....12,322,106
12. Equipment.....					.....0
13. Cost or depreciation of EDP equipment and software.....	.....12,925,588	.....13,651,551	.....126,040,092	.....36,639	.....152,653,870
14. Outsourced services including EDP, claims, and other services.....	.....61,574,082	.....136,868,532	.....161,080,749	.....28	.....359,523,391
15. Boards, bureaus and association fees.....	.....390,184	.....7,186	.....6,601,327	.....3,056	.....7,001,753
16. Insurance, except on real estate.....	.....4,841	.....611	.....1,821,447		.....1,826,899
17. Collection and bank service charges.....					.....0
18. Group service and administration fees.....	.....4,711,666	.....4,759,988	.....76,872,916		.....86,344,570
19. Reimbursements by uninsured plans.....	.....(96,900,039)	.....(163,877,477)	.....(559,019,768)		.....(819,797,284)
20. Reimbursements from fiscal intermediaries.....					.....0
21. Real estate expenses.....					.....0
22. Real estate taxes.....			.....86,471		.....86,471
23. Taxes, licenses and fees:					
23.1 State and local insurance taxes.....					.....0
23.2 State premium taxes.....					.....0
23.3 Regulatory authority licenses and fees.....			.....1,584,381		.....1,584,381
23.4 Payroll taxes.....	.....5,957,992	.....9,038,774	.....20,371,622	.....44,515	.....35,412,903
23.5 Other (excluding federal income and real estate taxes).....					.....0
24. Investment expenses not included elsewhere.....					.....0
25. Aggregate write-ins for expenses.....	.....0	.....0	.....0	.....0	.....0
26. Total expenses incurred (Lines 1 to 25).....	.....111,427,307	.....190,238,080	.....649,105,046	.....1,145,237	(a).....951,915,670
27. Less expenses unpaid December 31, current year.....		.....74,008,263	.....219,330,523		.....293,338,786
28. Add expenses unpaid December 31, prior year.....		.....79,317,143	.....160,183,348		.....239,500,491
29. Amounts receivable relating to uninsured plans, prior year.....		.....34,351,557	.....77,542,764		.....111,894,321
30. Amounts receivable relating to uninsured plans, current year.....		.....25,532,598	.....54,885,032		.....80,417,630
31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30).....	.....111,427,307	.....186,728,001	.....567,300,139	.....1,145,237	.....866,600,684

DETAILS OF WRITE-INS

2501. ....					.....0
2502. ....					.....0
2503. ....					.....0
2598. Summary of remaining write-ins for Line 25 from overflow page.....	.....0	.....0	.....0	.....0	.....0
2599. TOTALS (Lines 2501 thru 2503 plus 2598) (Line 25 above).....	.....0	.....0	.....0	.....0	.....0

(a) Includes management fees of \$.....45,909,643 to affiliates and \$.....133,838,635 to non-affiliates.

EXHIBIT OF NET INVESTMENT INCOME

	1 Collected During Year	2 Earned During Year
1. U.S. government bonds.....	(a).....12,216,671	.....12,668,894
1.1 Bonds exempt from U.S. tax.....	(a).....	.....
1.2 Other bonds (unaffiliated).....	(a).....111,457,408	.....112,317,826
1.3 Bonds of affiliates.....	(a).....	.....
2.1 Preferred stocks (unaffiliated).....	(b).....213,814	.....213,814
2.11 Preferred stocks of affiliates.....	(b).....	.....
2.2 Common stocks (unaffiliated).....	.....10,410,133	.....9,641,734
2.21 Common stocks of affiliates.....	.....	.....
3. Mortgage loans.....	(c).....	.....
4. Real estate.....	(d).....	.....654,211
5. Contract loans.....	.....	.....
6. Cash, cash equivalents and short-term investments.....	(e).....1,890,359	.....1,493,889
7. Derivative instruments.....	(f).....	.....
8. Other invested assets.....	.....	.....
9. Aggregate write-ins for investment income.....	.....(3,088,132)	.....44,041,768
10. Total gross investment income.....	.....133,100,253	.....181,032,136
11. Investment expenses.....		(g).....1,100,722
12. Investment taxes, licenses and fees, excluding federal income taxes.....		(g).....44,515
13. Interest expense.....		(h).....
14. Depreciation on real estate and other invested assets.....		(i).....16,386,763
15. Aggregate write-ins for deductions from investment income.....		.....0
16. Total deductions (Lines 11 through 15).....		.....17,532,000
17. Net investment income (Line 10 minus Line 16).....		.....163,500,136

DETAILS OF WRITE-INS		
0901. SECURITY LENDING INCOME.....	.....571,478	.....603,717
0902. MANAGEMENT FEES.....	.....(3,683,117)	.....(3,683,117)
0903. SWEEP INCOME.....	.....23,507	.....23,507
0998. Summary of remaining write-ins for Line 9 from overflow page.....	.....0	.....47,097,661
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	.....(3,088,132)	.....44,041,768
1501.		
1502.		
1503.		
1598. Summary of remaining write-ins for Line 15 from overflow page.....		.....0
1599. Totals (Lines 1501 thru 1503 plus 1598) (Line 15 above).....		.....0

- (a) Includes \$.....9,708,373 accrual of discount less \$.....32,871,036 amortization of premium and less \$.....21,325,649 paid for accrued interest on purchases.
- (b) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued dividends on purchases.
- (c) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued interest on purchases.
- (d) Includes \$.....0 for company's occupancy of its own buildings; and excludes \$.....0 interest on encumbrances.
- (e) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued interest on purchases.
- (f) Includes \$.....0 accrual of discount less \$.....0 amortization of premium.
- (g) Includes \$.....0 investment expenses and \$.....0 investment taxes, licenses and fees, excluding federal income taxes, attributable to Segregated and Separate Accounts.
- (h) Includes \$.....0 interest on surplus notes and \$.....0 interest on capital notes.
- (i) Includes \$.....16,386,763 depreciation on real estate and \$.....0 depreciation on other invested assets.

EXHIBIT OF CAPITAL GAINS (LOSSES)

	1 Realized Gain (Loss) on Sales or Maturity	2 Other Realized Adjustments	3 Total Realized Capital Gain (Loss) (Columns 1 + 2)	4 Change in Unrealized Capital Gain (Loss)	5 Change in Unrealized Foreign Exchange Capital Gain (Loss)
1. U.S. government bonds.....	.....42,938,896	.....	.....42,938,896	.....	.....
1.1 Bonds exempt from U.S. tax.....	.....	.....	.....0	.....	.....
1.2 Other bonds (unaffiliated).....	.....30,917,495	.....(17,092,020)	.....13,825,475	.....(43,326)	.....
1.3 Bonds of affiliates.....	.....	.....	.....0	.....	.....
2.1 Preferred stocks (unaffiliated).....	.....29,896	.....(352,041)	.....(322,145)	.....	.....
2.11 Preferred stocks of affiliates.....	.....	.....	.....0	.....	.....
2.2 Common stocks (unaffiliated).....	.....43,926,918	.....(37,277,939)	.....6,648,979	.....(9,224,734)	.....
2.21 Common stocks of affiliates.....	.....	.....	.....0	.....100,916,806	.....
3. Mortgage loans.....	.....	.....	.....0	.....	.....
4. Real estate.....	.....	.....(4,848,825)	.....(4,848,825)	.....	.....
5. Contract loans.....	.....	.....	.....0	.....	.....
6. Cash, cash equivalents and short-term investments.....	.....(41,365)	.....	.....(41,365)	.....	.....
7. Derivative instruments.....	.....	.....	.....0	.....(16,090,244)	.....
8. Other invested assets.....	.....	.....	.....0	.....	.....
9. Aggregate write-ins for capital gains (losses).....	.....40,918	.....0	.....40,918	.....0	.....0
10. Total capital gains (losses).....	.....117,812,758	.....(59,570,825)	.....58,241,933	.....75,558,502	.....0

DETAILS OF WRITE-INS					
0901. Others.....	.....40,918	.....	.....40,918	.....	.....
0902. ....	.....	.....	.....0	.....	.....
0903. ....	.....	.....	.....0	.....	.....
0998. Summary of remaining write-ins for Line 9 from overflow page..	.....0	.....0	.....0	.....0	.....0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	.....40,918	.....0	.....40,918	.....0	.....0

EXHIBIT OF NONADMITTED ASSETS

	1 Current Year Total Nonadmitted Assets	2 Prior Year Total Nonadmitted Assets	3 Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D).....			0
2. Stocks (Schedule D):			
2.1 Preferred stocks.....			0
2.2 Common stocks.....			0
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens.....			0
3.2 Other than first liens.....			0
4. Real estate (Schedule A):			
4.1 Properties occupied by the company.....			0
4.2 Properties held for the production of income.....			0
4.3 Properties held for sale.....			0
5. Cash (Schedule E-Part 1), cash equivalents (Schedule E-Part 2) and short-term investments (Schedule DA).....			0
6. Contract loans.....			0
7. Derivatives (Schedule DB).....			0
8. Other invested assets (Schedule BA).....			0
9. Receivables for securities.....			0
10. Securities lending reinvested collateral assets (Schedule DL).....			0
11. Aggregate write-ins for invested assets.....	0	0	0
12. Subtotals, cash and invested assets (Lines 1 to 11).....	0	0	0
13. Title plants (for Title insurers only).....			0
14. Investment income due and accrued.....	773,939		(773,939)
15. Premiums and considerations:			
15.1 Uncollected premiums and agents' balances in the course of collection.....			0
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due.....			0
15.3 Accrued retrospective premiums.....			0
16. Reinsurance:			
16.1 Amounts recoverable from reinsurers.....			0
16.2 Funds held by or deposited with reinsured companies.....			0
16.3 Other amounts receivable under reinsurance contracts.....			0
17. Amounts receivable relating to uninsured plans.....	11,802,733	30,288,499	18,485,766
18.1 Current federal and foreign income tax recoverable and interest thereon.....			0
18.2 Net deferred tax asset.....			0
19. Guaranty funds receivable or on deposit.....			0
20. Electronic data processing equipment and software.....	244,963,300	100,182,419	(144,780,881)
21. Furniture and equipment, including health care delivery assets.....	8,454,880	2,612,170	(5,842,710)
22. Net adjustment in assets and liabilities due to foreign exchange rates.....			0
23. Receivables from parent, subsidiaries and affiliates.....			0
24. Health care and other amounts receivable.....	4,656,475	2,334,869	(2,321,606)
25. Aggregate write-ins for other than invested assets.....	22,478,585	20,239,176	(2,239,409)
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 through 25).....	293,129,912	155,657,133	(137,472,779)
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			0
28. TOTALS (Lines 26 and 27).....	293,129,912	155,657,133	(137,472,779)

DETAILS OF WRITE-INS

1101.			0
1102.			0
1103.			0
1198. Summary of remaining write-ins for Line 11 from overflow page.....	0	0	0
1199. Totals (Lines 1101 thru 1103 plus 1198) (Line 11 above).....	0	0	0
2501. Miscellaneous Accounts Receivable.....	6,605,443	8,911,794	2,306,351
2502. Prepaid and Other Assets.....	8,626,277	5,660,295	(2,965,982)
2503. Company Owned Automobile.....	23,680	106,225	82,545
2598. Summary of remaining write-ins for Line 25 from overflow page.....	7,223,185	5,560,862	(1,662,323)
2599. Totals (Lines 2501 thru 2503 plus 2598) (Line 25 above).....	22,478,585	20,239,176	(2,239,409)

EXHIBIT 1 - ENROLLMENT BY PRODUCT TYPE FOR HEALTH BUSINESS ONLY

Source of Enrollment	Total Members at End of					6 Current Year Member Months
	1 Prior Year	2 First Quarter	3 Second Quarter	4 Third Quarter	5 Current Year	
1. Health maintenance organizations.....						
2. Provider service organizations.....						
3. Preferred provider organizations.....	1,182,701	1,188,886	1,159,108	1,181,761	1,174,761	14,186,143
4. Point of service.....	56	24	256	568	568	3,626
5. Indemnity only.....	347,076	307,311	326,575	313,060	313,060	3,748,115
6. Aggregate write-ins for other lines of business.....	724	689	711	707	674	8,276
7. Total.....	1,530,557	1,496,910	1,486,650	1,496,096	1,489,063	17,946,160

DETAILS OF WRITE-INS

0601. National Stoploss.....	101	103	105	106	102	1,231
0602. Local Stoploss.....	623	586	606	601	572	7,045
0603.						
0698. Summary of remaining write-ins for Line 6 from overflow page.....	0	0	0	0	0	0
0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above).....	724	689	711	707	674	8,276

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS
FOR PERIOD ENDED DECEMBER 31, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. Accounting Practices**

Blue Cross Blue Shield of Michigan (the "Company") is incorporated as a nonprofit health care corporation under the provisions of Public Act 350 of 1980 ("P.A. 350") of the state of Michigan. Hospital, medical, and other health benefits are provided under contracts with subscribers. The Company also operates health maintenance organization ("HMO") subsidiaries that provide health care services to subscribers and contracts with various physician groups, hospitals, and other health care providers to provide such services. In addition, the Company has subsidiaries that provide workers' compensation and long-term care insurance.

Michigan Office of Financial and Insurance Regulation ("OFIR") recognizes only statutory basis accounting practices prescribed or permitted by the state of Michigan for determining and reporting the financial condition and results of operations of an insurance company. OFIR adopted the National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual* ("NAIC SAP") as the basis for its statutory accounting practices. The Commissioner of OFIR has the right to permit other specific practices that may deviate from the prescribed practices. The accompanying statutory basis financial statements have been prepared, except as to form, in conformity with accounting practices prescribed or permitted by OFIR.

At the direction of the Michigan Commissioner of Insurance, the Company limited its provision for all premium deficiency reserve (PDR) losses to not exceed two years. NAIC SAP, as prescribed in SSAP No. 54, *Individual and Group Accident and Health Contracts*, requires all reasonable foreseen losses be accrued. If the provision for PDR losses was not limited to two years, statutory surplus would be decreased by \$224,127,000 and \$214,584,000 for the periods ending December 31, 2011 and December 31, 2010, respectively. Additionally, net income would be (decreased)/increased by (\$9,543,000) and \$33,848,000, respectively, for the years then ended December 31, 2011 and 2010.

In 2009, OFIR approved the Company's permitted practice request regarding the determination of the admitted asset attributable to hospital advances pursuant to paragraph 16 of SSAP No. 84, *Certain Health Care Receivables and Receivables Under Government Insured Plans*. The permitted practice allows the Company to admit net hospital advances attributable to self-funded contract claims to the extent of the unpaid hospital incurred claims owed by the Company to the hospital. Without the permitted practice, statutory surplus would have decreased by \$90,588,546 and \$45,989,000 as of December 31, 2011 and 2010, respectively. The permitted practice had no impact on net income for the years ended December 31, 2011 and 2010.

A reconciliation of the Company's net income and capital and surplus between OFIR prescribed and permitted practices and NAIC SAP as of December 31, 2011 and 2010 is as follows:

BLUE CROSS BLUE SHIELD OF MICHIGAN

	12/31/2011	12/31/2010
Net Income - MI OFIR	\$ 40,011,408	\$ 205,229,863
<i>MI OFIR Prescribed Practice</i>		
Two-Year Limitation on Premium Deficiency Reserves	(9,543,000)	33,848,000
<i>MI OFIR Permitted Practice</i>		
Hospital Advances for Self-Funded Claims	-	-
Net Income - NAIC SAP	<u>\$ 30,468,408</u>	<u>\$ 239,077,863</u>
Statutory Surplus - MI OFIR	\$ 2,789,651,952	\$ 2,759,467,557
<i>MI OFIR Prescribed Practice</i>		
Two-Year Limitation on Premium Deficiency Reserves	(224,127,000)	(214,584,000)
Deferred Tax Impact of Two-Year PDR limit	44,825,000	42,917,000
Change in Non-admitted Deferred Tax Asset	(28,500,000)	-
<i>MI OFIR Permitted Practice</i>		
Hospital Advances for Self-Funded Claims	<u>(90,588,546)</u>	<u>(45,989,000)</u>
Statutory Surplus - NAIC SAP	<u>\$ 2,491,261,406</u>	<u>\$ 2,541,811,557</u>

B. Use of Estimates in the Preparation of the Financial Statements

The preparation of statutory-basis financial statements, in conformity with the Annual Statement instructions and accounting practices prescribed or permitted by OFIR, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the statutory-basis financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

C. Accounting Policy

1. Short-Term Investments - Short-term investments and cash equivalents are recorded at amortized cost, which approximates market value, and include commercial paper, certificates of deposits, and other readily marketable investments with initial maturities less than one year for short-term investments and three months or less for cash equivalents.
2. Bonds - Bonds not backed by other loans that have an NAIC designation of one or two are stated at amortized cost using the effective interest method. Bonds with an NAIC designation of three or higher are carried at the lower of amortized cost or fair market value.
3. Common Stocks Unaffiliated - Common stocks are recorded at fair value. Changes in unrealized appreciation and depreciation in the value of common stocks are reflected as direct increases or decreases in surplus.
4. Preferred Stocks - Preferred stocks are stated at book value for NAIC classes one and two and lower of book value or market for NAIC classes three through six. Changes in unrealized appreciation and depreciation in the value of preferred stocks are reflected as direct increases or decreases in surplus.
5. Mortgage loans on real estate – The Company does not have mortgage loans.
6. Loan-backed securities are stated at amortized cost. Premiums and discounts on loan-backed bonds and structured securities are amortized using the retrospective method based on anticipated prepayments at the date of purchase. Prepayment assumptions are obtained from broker-dealer survey values or internal estimates. Changes in estimated cash flows from the original purchase assumptions are accounted for using the prospective method. Should the present value of anticipated cash flows collected be less than the amortized cost basis, a determination will be made on whether the decline in value is other than temporary. If the Company has the ability and intent to hold the security to maturity but does not expect recovery of the carrying value, the credit portion of the decline is recognized as an impairment loss.
7. Investment in Subsidiaries and Goodwill - The Company uses the equity method and follows NAIC SAP in valuing its subsidiaries. In accordance with SSAP No. 97, *Investments in Subsidiary, Controlled, and Affiliated Entities*, a replacement of SSAP No. 88, the Company reports its investments in subsidiaries inclusive of related goodwill

balances. Included in the Company’s common stock balance are the investments in Blue Care Network of Michigan (BCNM), Accident Fund Holdings, Inc. (AFHI) and LifeSecure Holdings, Inc. (LifeSecure). In June 2011, the Company made an additional capital contribution of \$15,500,000 to LifeSecure. Goodwill is amortized over 10 years. Goodwill amortization recognized for each year ended December 31, 2011 and 2010, was \$6,663,900. The carrying value of these assets is reviewed for impairment at least annually or more frequently should circumstances indicate. The Company completed its annual impairment test as of December 31, 2011 and 2010 and no impairments were indicated.

The goodwill limitation calculated based on SSAP No. 68 at December 31, 2011 was \$256,136,030 and the Company’s actual goodwill balance was \$13,327,800. As of December 31, 2011 and 2010, the Company’s goodwill balances were fully admissible.

As of December 31, 2011 and 2010, the breakdown between goodwill and investments in subsidiaries is shown below.

	2011	2010
Common Stock Investments in Subsidiaries:		
Investment in BCNM*	\$ 715,203,000	\$ 537,314,000
Investment in Accident Fund Holdings, Inc	578,901,000	648,219,000
AFHI goodwill	13,327,800	19,991,700
Investment in LifeSecure	26,274,000	13,459,000
Amount included in common stock	<u>\$ 1,333,705,800</u>	<u>\$ 1,218,983,700</u>
Summary:		
Investment in Subsidiaries	\$ 1,320,378,000	\$ 1,198,992,000
Goodwill	13,327,800	19,991,700
Total	<u>\$ 1,333,705,800</u>	<u>\$ 1,218,983,700</u>

* Includes investments in BCNM, Blue Care of Michigan Inc, Blue Care Network Medical Malpractice Self-Insurance Trust, Blue Care Network Stop-Loss, and Casualty Self-Insurance Trust.

8. Investments in Joint Ventures, Partnerships and Limited Liability Companies - The Company has ownership interests in partnerships and limited liability companies. The Company carries these investments based on the underlying GAAP equity.
- The accounting treatment of the Company's investment in National Account Service Company (NASCO) and AmeriHealth Mercy Family of Companies (AmeriHealth) and Bloom Health (Bloom) were in accordance with SSAP No. 97 – *Investment in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 88.* (Note 6)
9. Derivatives – NOT APPLICABLE
10. Premium Deficiency Reserve - A liability for premium deficiency losses is an actuarial estimate that is recognized when it is probable that expected claim losses and allocable administrative expenses will exceed future premiums on existing health and other contracts without consideration of investment income. For purposes of premium deficiency losses, contracts are grouped in a manner consistent with the Company's method of acquiring, servicing and measuring the profitability of such contracts. Premium deficiency losses are generally recorded related to the period that the contract is in a loss position. The Company is in compliance with OFIR prescribed practice for non-profit health care corporations to limit provision for all PDR losses to two years. In 2011, the Medicare Complimentary PDR was combined with the Company's individual Medicare Advantage products for PDR measurement purposes. The change in grouping resulted in a reduction in the PDR of approximately \$46,000,000.
11. Liabilities for Unpaid Claim, Claim Adjustment Expenses, and Advances to Providers - Liabilities for unpaid claims and claim adjustment expenses are actuarial estimates of outstanding claims, including claims incurred but not reported ("IBNR"). These estimates are based upon historical claims experience modified for current trends and changes in benefit coverage, which could vary as the claims are ultimately settled. Interim hospital advances are reported as advances to providers. Processing expenses related to claims are accrued based on an estimate of expenses to process such claims. Revisions in actuarial estimates are reported in the period in which they arise.

12. Capitalization Policy – The Company has not modified its capitalization policy and meets the requirements of SSAP No. 87, *Capitalization Policy*.
13. Pharmaceutical Rebate Receivables – Pharmaceutical rebate accruals are calculated using recent history of rebates received to develop an estimate. Rebate receivables are recorded under the requirements of SSAP No. 84. (Note 28)
14. Premium Rebates – Beginning in 2011, under the provisions of the Affordable Care Act, the Company is required to provide rebates to policyholders if the coverage does not satisfy a specified medical loss ratio (“MLR”). For individual and small group business, if a health insurer does not meet an 80% MLR for the year, it will be required to provide a rebate to the policyholders. The required MLR for large groups is 85%. Premium rebates are reported as reductions to premium revenue. MLR rebates are required to be paid to policyholders by August 1 following the end of the year in which an applicable MLR standard was not met. At December 31, 2011, the Company determined it had no rebate liability as all MLR ratios are above required minimums.
15. Real Estate – Real property occupied by the Company is stated at net book value and depreciation is calculated using the straight-line method over estimated useful lives ranging from 30 to 40 years for buildings. Real property held for sale is recorded at its estimated fair market value and not subject to further depreciation.
16. Long-Lived Assets - Long-lived assets held and used by the Company are reviewed for impairment based on market factors and operational considerations whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets ‘held for sale’ are no longer depreciated. The Company writes down the carrying amount of the long-lived asset to its fair value once the impairment has been determined.
17. Premiums and Fee Revenues - Premiums, which generally are billed in advance, are recognized as revenue during the respective periods of coverage. Premiums applicable to the unexpired portion of coverage are reflected in the accompanying statements of admitted assets, liabilities, and surplus — statutory basis as aggregate health policy reserves. Premiums received in advance of the billing due date are recorded as premiums received in advance.

Fee revenue primarily consists of administrative fees for services provided under administrative service contracts (ASC), including management of medical services, claims processing, and access to provider networks. Under ASC arrangements, self-funded groups retain the primary underwriting risk of paying claims, and the Company retains an element of credit risk to providers in the event reimbursement is not received from the group; therefore, claims paid by the Company and the corresponding reimbursement of claims, plus administrative fees are netted. Amounts due from ASC groups are equal to the amounts required to pay claims and administrative fees. Administrative fees are earned as services are performed and are calculated based on the number of members in a group or the group’s claim experience. Since benefit expenses for ASC arrangements are not the responsibility of the Company, claims paid by the Company and the corresponding reimbursement of claims are not reported in the accompanying statutory basis financial statements. Administrative fee revenues related to ASC arrangements are included as a reduction in operating expenses, cost containment expenses, and other claim adjustment expenses. Administrative fee revenues of \$819,797,283 and \$713,566,254 related to ASC arrangements are included as offset in operating expenses for the periods ended December 31, 2011 and 2010, respectively.

2. ACCOUNTING CHANGES AND CORRECTIONS OF ERRORS

SSAP No. 101 — *Income Taxes* — With an effective date of January 1, 2012, SSAP No. 101 replaces SSAP No. 10R. SSAP 101 changes the recognition of deferred taxes in several ways. First, under SSAP 10R, companies can elect to admit deferred tax assets (DTAs) that they expect to realize within either one or three years of the balance sheet date, provided certain risk-based capital (RBC) levels are met and the total amount of admitted DTAs under this step was less than a stated percentage of adjusted capital. SSAP No. 101 instead provides two realization threshold limitation tables, which dictate the number of years of DTA reversals required to be considered (now 0-3) and the percentage of adjusted capital limitation (now 0-15 percent). Second, SSAP No. 101 will require uncertain tax positions to be evaluated on a “more likely than not” standard, as opposed to the “probable” standard previously contained in SSAP No. 10R; also, under SSAP No. 101 companies must now assume that they will be subject to tax examinations by relevant authorities. Finally, tax planning strategies will now expressly allow, both for determining the admissibility tests as well as for determination of valuation allowances, provided that the strategies meet the “more likely than not” standard. In years subsequent to December 31, 2011 the Company will change recognition of deferred taxes to the guidance under SSAP

No. 101. The Company has reviewed the new provisions under SSAP No. 101 and does not expect the change from SSAP No. 10R to SSAP No. 101 to have a material effect on its financial statements.

SSAP No. 5R — *Liabilities, Contingencies, and Impairments of Assets* — Effective December 31, 2011, SSAP No. 5R incorporates a requirement to recognize a liability, representing the fair value of the guarantee, at the inception of the guarantee. There is no requirement for liability recognition for guarantees provided to wholly-owned subsidiaries or considered “unlimited;” however, they are subject to disclosure provisions. This SSAP provides for recognition for certain guarantees between parents and subsidiaries or between subsidiaries under common control. The adoption of SSAP No. 5R did not have a material impact on the Company’s statutory basis financial position or results of operations.

SSAP No. 66 — *Retrospectively Rated Contracts* — On March 26, 2011, the Statutory Accounting Principles Working Group (SAPWG) issued a nonsubstantive proposal # 2011-11 providing clarification that SSAP No. 66 should be followed when accounting for medical loss ratio (MLR) rebate liabilities so that the MLR rebate accrual is recorded as a reduction to the premium revenue for financial reporting purposes. The clarification did not have a material impact to the Company’s statutory basis financial position or results of operations for the year ended December 31, 2011.

SSAP No. 100 — *Fair Value Measurements* —On March 26, 2011, nonsubstantive revisions to SSAP No. 100 were adopted are effective on January 1, 2012. The nonsubstantive revisions require fair value measurement at the reporting date; separate line item disclosures of purchases, sales, issues and settlements; disclosure of fair value hierarchy and the method used to obtain the fair value measurement of all items in which fair value is disclosed within the Annual Statement investment schedules; and disclosure in the notes to the financial statements, as of each date for which a statement of financial position is presented, the aggregate fair value for all financial instruments and the level within the fair value hierarchy in which the fair value measurements in its entirety fall. The adoption of SSAP No. 100 revisions will require the Company to provide additional disclosures for fair value measurements starting in 2012.

- 3. BUSINESS COMBINATIONS – NOT APPLICABLE
- 4. DISCONTINUED OPERATIONS – NOT APPLICABLE
- 5. INVESTMENTS
 - A. Mortgage Loans – NOT APPLICABLE
 - B. Debt Restructuring – NOT APPLICABLE
 - C. Reverse Mortgages – NOT APPLICABLE
 - D. Loan-Backed Securities

Loan-backed securities are stated at the lower of amortized cost or fair value. Premiums and discounts on loan-backed bonds and structured securities are amortized using the retrospective method based on anticipated prepayments at the date of purchase. Prepayment assumptions are obtained from broker-dealer survey values or internal estimates. Changes in estimated cash flows from the original purchase assumptions are accounted for using the prospective method.

The following table reflects, in aggregate, all securities within the scope of SSAP No. 43R, Loan-Backed and Structured Securities, with a recognized other-than-temporary impairment, classified by management’s current outlook regarding the security.

	1	2	(1-2)
	Amort Cost Before OTTI	OTTI Recog in Loss	Fair Value
Aggregate Intent to Sell	\$ 6,206,247	\$ 714,310	\$ 5,491,937
Aggregate Intent & Ability to Hold and No Intent to Sell	-	-	-
Total	\$ 6,206,247	\$ 714,310	\$ 5,491,937

The securities, with recognized other-than temporary impairment, that are currently held by the Company and which present value of cash flows expected to be collected is less than the amortized cost of the securities are disclosed in the following table:

CUSIP	Amort Cost Before OTTI	Proj Cash Flow	Recognized OTTI	Amort Cost After OTTI	Fair Value 12/31/11
02660TBM4	\$ 92,001	\$ 89,929	\$ 2,073	\$ 89,929	\$ 89,929
02660TGN7	127,770	109,390	18,380	109,390	109,390
040104BG5	299,296	288,710	10,586	288,710	288,710
05949AH86	63,296	59,527	3,769	59,527	59,527
12667GZ30	128,164	107,127	21,037	107,127	107,127
12669GUR0	204,691	190,087	14,603	190,087	190,087
17307GW79	170,384	162,297	8,087	162,297	162,297
20173VAG5	92,047	76,904	15,143	76,904	76,904
36242DPF4	70,650	68,586	2,064	68,586	68,586
36246LAG6	1,517,617	1,222,028	295,589	1,222,028	1,222,028
45660LDE6	260,485	249,990	10,495	249,990	249,990
52521YAC0	278,880	270,697	8,183	270,697	270,697
525237BF9	96	63	33	63	63
55027YAD0	356,545	285,958	70,587	285,958	285,958
576433XW1	40,863	38,799	2,064	38,799	38,799
64352VKU4	187,816	187,616	200	187,616	187,616
81744FCG0	375,870	306,993	68,877	306,993	306,993
863579TM0	630,253	594,822	35,431	594,822	594,822
86359DES2	310,801	259,380	51,420	259,380	259,380
93363TAB8	754,369	696,719	57,650	696,719	696,719
93364AAC6	244,353	226,312	18,040	226,312	226,312
Total	\$ 6,206,247	\$ 5,491,937	\$ 714,310	\$ 5,491,937	\$ 5,491,937

E. Repurchase Agreements and/or Securities Lending Transactions

- 1) The Company, in the normal course of business, enters into a security lending agreement with a custodian bank. Under this agreement, the Company requires collateral approximating at least 102% of the value of the securities loaned. The Company receives cash and non-cash collateral. The cash collateral is reinvested by the custodian bank in commingled trusts. The non-cash collateral is maintained in a separate account until the transaction is completed. The security lending agreement is primarily overnight in nature and subject to renewal or termination.
- 2) The Company has no pledged assets under its security lending transaction agreement.
- 3) At December 31, 2011, for its loaned securities of \$27,079,301, the Company received cash collateral of \$27,654,579. The fair value of the cash collateral received is \$26,962,606. During 2011, there were no non-cash collateral transactions. At December 31, 2010, for its loaned securities of \$446,578,042, the company received cash collateral of \$417,738,094 and non-cash collateral of \$38,035,382. The fair value of the cash collateral received is \$416,440,220.

F. Real Estate

Real properties held for sale at December 31, 2011 of \$ 8,601,621 are not subject to depreciation and are stated at their fair values at the time such properties qualify as “held for sale”. Consistent with the provisions of SSAP No. 90, *Accounting for the Impairment or Disposal of Real Estate Investments*, the Company wrote these properties down to their estimated fair market value. The impairment loss is reported with the net realized capital gains (loss) line of the investment gains line in the Statements of Revenues and Expenses — Statutory Basis.

The Company intends to dispose its Lake Lansing property located in Lansing, Michigan and to close the sale in January 2012 for \$1,800,000; therefore this asset is classified as “held for sale”.

In December 2010, the Company entered into a long-term lease to occupy space in the GM Renaissance Center in downtown Detroit, Michigan, into which it moved its personnel currently located at the Company’s service center in Southfield, Michigan. The Company intended to dispose of its Southfield Metro property and accordingly, has ceased depreciation and changed the status of the property to “held for sale”. The Company recorded a \$4,848,000 and \$31,941,000 impairment loss on its Southfield Metro properties in 2011 and 2010, respectively. Also, during 2010, the Company changed the

status of its Ionia Blue House property located in Lansing, Michigan to “held for sale” and relocated its employees located in this property to another location.

G. Low-Income Housing Tax Credits – NOT APPLICABLE

6. JOINT VENTURES, PARTNERSHIPS, AND LIMITED LIABILITY COMPANIES

On November 30, 2011, the Company purchased a 38.7% interest in AmeriHealth for \$131,900,000. The remaining 61.3% of AmeriHealth is owned by Independence Blue Cross. AmeriHealth is a national leader in healthcare solutions for Medicaid beneficiaries and among the largest organization of Medicaid managed care plans in the U.S. The Company’s strategic investment in AmeriHealth is aligned with the Company’s initiatives to grow the Medicaid portion of the business. In addition to the initial investment of \$131,900,000 the Company has a commitment to invest an additional \$44,000,000 in AmeriHealth in 2012 and up to \$39,000,000 for capital growth between 2012 and 2015.

In September, 2011, the Company entered into a joint venture with WellPoint and Health Care Service Corporation to purchase Bloom Health (Bloom). Prior to the joint venture agreement, the Company had a 14.9% interest in Bloom at December 31, 2010. At December 31, 2011, the Company’s total investment of approximately \$11,800,000 represents a 28.7% interest in Bloom. Bloom is an emerging healthcare technology company that provides innovative defined contribution and private exchange products for Blues plans.

In May 2011, the Company extended a loan to EIN Investment Fund, LLC (EIN) for \$13,655,000. The Company’s loan represents a 40 percent interest in the joint venture and the remainder is owned by outside investors. Because the loan to EIN was used entirely to fund leasehold improvements, the investment in EIN has a statutory carrying value of \$0. As discussed in Note 15 below, the Company made this investment to secure the financial benefits of the New Market Tax Credit related to capital improvement expenditures associated with the long-term lease of office space at the G.M. Renaissance Center. Under the terms of the lease agreement, EIN is the lessee of the office space and employee parking facilities and the Company holds a sublease from EIN.

The Company has no investments in joint ventures, partnerships and limited liability companies that exceed 10% of its admitted assets.

7. INVESTMENT INCOME

- A. Investment income due and accrued with amounts that are over 90 days past due will be non-admitted.
- B. Investment income due and accrued and non-admitted at December 31, 2011 and December 31, 2010 was \$773,939 and \$0, respectively.

The Company has an established investment impairment policy and continuously monitors its investments for declines in market value below book value that may be other than temporary (OTTI). Under the provisions of INT 06-07 OTTI does not necessarily mean permanent, but recovery is not expected in the near-term. To determine if a security is OTTI impaired, the Company regularly performs a review of its securities. Factors taken into account for each individual security include: the length of time and extent to which the fair value has been less than the carrying value; the underlying financial condition and the specific circumstances that are impacting the issuer in the marketplace. Specific criteria for evaluating debt securities for impairment include the length of time and extent to which the fair market value was below carrying value, NAIC ratings, interest coverage ratios, and ratings outlook.

For internally-managed debt securities, an other-than-temporary impairment (OTTI) is present when a credit loss is determined to exist for the underlying security or the Company has the intent to sell the security before anticipated recovery or the Company has intent to hold and anticipates that the security will not recover. A credit loss for impairment purposes occurs when the Company does not anticipate the recovery of amortized cost. For loan-backed securities, if the company has the ability and intent to hold the security to maturity, but does not expect recovery of the carrying value, the credit portion of the decline is recognized as an impairment loss. Interest related impairments are not recognized as an impairment loss. The write-down to fair market value of debt securities resulted in approximately \$17,040,756 and \$8,894,218 in 2011 and 2010 of OTTI losses.

For internally-managed equity securities, the Company evaluates whether it has the intent and ability to hold the security using a five-year rolling average to determine if there will be full recovery in value. For the years ended December 31, 2011 and 2010, OTTI losses of approximately \$36,822,244 and \$7,419,036 were recorded.

For internally-managed investments with market values below cost that were determined not to have OTTI, the Company regularly monitors the existing unrealized losses and evaluates potential impairments to determine if OTTI needs to be recorded. For investments managed by outside investment managers, OTTI is presumed to exist when market values are below cost because the Company cannot assert the “intent and ability to hold to recovery”.

8. DERIVATIVE INSTRUMENTS – NOT APPLICABLE

9. INCOME TAXES

The components of the net deferred tax assets as of December 31 are as follows:

Description	2011			2010		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross deferred tax assets (DTAs)	\$ 211,299,578	\$ -	\$ 211,299,578	\$ 212,184,273	\$ -	\$ 212,184,273
Statutory valuation allowance	-	-	-	-	-	-
Adjusted gross deferred tax assets	211,299,578	-	211,299,578	212,184,273	-	212,184,273
Gross deferred tax liabilities (DTLs)	(107,671,860)	-	(107,671,860)	(179,901,243)	-	(179,901,243)
Net deferred tax asset (liability) before admissibility test	103,627,718	-	103,627,718	32,283,030	-	32,283,030
Admitted pursuant to:						
10.a.	-	-	-	-	-	-
10.b.i.	48,202,679	-	48,202,679	59,325,929	-	59,325,929
10.b.ii.	266,373,753	-	266,373,753	256,025,352	-	256,025,352
Admitted pursuant to 10.b.(lesser of i. or ii.	48,202,679	-	48,202,679	59,325,929	-	59,325,929
Admitted pursuant to 10.c.	107,671,860	-	107,671,860	152,858,344	-	152,858,344
Total admitted under 10.a., b., c.	155,874,539	-	155,874,539	212,184,273	-	212,184,273
Additional admitted pursuant to:						
10.e.i.	-	-	-	-	-	-
10.e.ii.a.	56,736,194	-	56,736,194	-	-	-
10.e.ii.b.	399,560,629	-	399,560,629	-	-	-
Additional admitted pursuant to 10.e.ii. (lesser of a. or b.)	56,736,194	-	56,736,194	-	-	-
Additional admitted pursuant to 10.e.iii.	56,736,194	-	56,736,194	-	-	-
Admitted deferred tax asset	211,299,578	-	211,299,578	212,184,273	-	212,184,273
Deferred tax liability	(107,671,860)	-	(107,671,860)	(179,901,243)	-	(179,901,243)
Net admitted DTA	103,627,718	-	103,627,718	32,283,030	-	32,283,030
Nonadmitted DTA	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

The Company has met the necessary Risk-Based Capital levels to be able to admit the increased amount of deferred tax assets under SSAP No. 10R and has elected to admit DTAs pursuant to paragraph 10.e. of SSAP No. 10R. In 2011 the DTA admitted asset thresholds of SSAP No. 10R paragraph 10.d. were exceeded therefore the increase in admitted DTA under SSAP No. 10R paragraph 10.e. for 2011 was \$55,425,034. In 2010 the DTA admitted asset thresholds of SSAP No. 10R paragraph 10.d. were exceeded but the increase in admitted DTA under SSAP No. 10R paragraph 10.e. for 2010 was \$0 due to the fact that the Company had sufficient deferred tax liabilities to offset the remaining DTAs.

BLUE CROSS BLUE SHIELD OF MICHIGAN

Description	Change During 2011		
	Ordinary	Capital	Total
Gross deferred tax assets	\$ (884,695)	\$	\$ (884,695)
Statutory valuation allowance	-	-	-
Adjusted gross deferred tax assets	(884,695)	-	(884,695)
Gross deferred tax liabilities	72,229,383	-	72,229,383
Net deferred tax (liability) asset before admissibility test	71,344,688	-	71,344,688
Admitted pursuant to:			
10.a.i.	-	-	-
10.b.i.	(11,123,250)	-	(11,123,250)
10.b.ii.	10,348,401	-	10,348,401
Admitted pursuant to 10.b.(lesser of i. or ii.)	(11,123,250)	-	(11,123,250)
Admitted pursuant to 10.c.	(45,186,484)	-	(45,186,484)
Total admitted under 10.a., b., c.	(56,309,734)	-	(56,309,734)
Additional admitted pursuant to:			
10.e.i.	-	-	-
10.e.ii.a.	56,736,194	-	56,736,194
10.e.ii.b.	399,560,629	-	399,560,629
Additional admitted pursuant to 10.e.ii.(lesser of a. or b.)	56,736,194	-	56,736,194
Additional admitted pursuant to 10.e.iii.	56,736,194	-	56,736,194
Admitted deferred tax asset	(884,695)	-	(884,695)
Deferred tax liability	72,229,383	-	72,229,383
Change in net admitted DTA or DTL	\$ 71,344,688	\$ -	\$ 71,344,688
Change in nonadmitted DTA	\$ -	\$ -	\$ -

Description	Total With s 10.a.-c.	Total With s 10.e.	Difference
Admitted DTA	\$ 155,874,539	\$ 211,299,573	\$ 55,425,034
Admitted assets	6,906,150,223	6,961,575,260	55,425,037
Statutory surplus	2,734,226,915	2,789,651,952	55,425,037
Risked based capital statutory surplus	2,734,226,915	2,789,651,952	55,425,037
Authorized control level used in 10.d	414,539,579	414,539,579	-
	2010 Total With s 10.a.-c.	2010 Total With s 10.e.	2010 Difference
Admitted DTA	\$ 212,184,273	\$ 212,184,273	\$ -
Admitted assets	6,783,574,000	6,783,574,000	-
Statutory surplus	2,759,467,557	2,759,467,557	-
Risked based capital statutory surplus	2,759,467,557	2,759,467,557	-
Authorized control level used in 10.d	395,551,652	395,551,652	-

There are no temporary differences for which a DTL has not been established.

The current income taxes incurred consist of the following major components:

Description	2011	2010
Current income tax expense	\$ 73,607,413	\$ 86,349,954
Loss carrybacks	-	(171,080,581)
Tax planning strategies and other	750,000	(6,405,627)
Federal income taxes incurred	\$ 74,357,413	\$ (91,135,847)

BLUE CROSS BLUE SHIELD OF MICHIGAN

The tax effects of temporary differences that give rise to significant portions of the deferred tax asset are as follows:

DTA Resulting From Book/Tax Differences	December 31 2011	December 31 2010	Change	Character
Discount of claim reserves	\$ 1,438,874	\$ 1,906,338	\$ (467,464)	Ordinary
Amounts accrued for premium deficiency	67,848,736	80,469,414	(12,620,678)	Ordinary
Unrealized capital losses on investments	-	-	-	Capital
Amounts accrued for groups	-	-	-	Ordinary
Accrued expenses and bad debts	33,899,930	26,212,738	7,687,192	Ordinary
Amounts accrued for postretirement benefits	<u>108,112,038</u>	<u>103,595,783</u>	<u>4,516,255</u>	Ordinary
Gross DTA	<u>\$ 211,299,578</u>	<u>\$ 212,184,273</u>	<u>\$ (884,695)</u>	
Nonadmitted DTA	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
DTL Resulting From Book/Tax Differences	December 31 2011	December 31 2010	Change	Character
Amounts prepaid for pension benefits	\$ 17,459,961	\$ 11,661,120	\$ 5,798,841	Ordinary
Depreciation, amortization	35,902,554	37,906,102	(2,003,548)	Ordinary
Sale leaseback transaction	-	9,572,406	(9,572,406)	Ordinary
Capital gain on investments/Other investments	431,161	13,234,706	(12,803,545)	Capital
Deferred ASC revenue	53,679,018	107,358,037	(53,679,019)	Ordinary
Other	<u>199,166</u>	<u>168,872</u>	<u>30,294</u>	Ordinary
Gross DTL	<u>\$ 107,671,860</u>	<u>\$ 179,901,243</u>	<u>\$ (72,229,383)</u>	

The change in net deferred income taxes is composed of the following (this analysis is exclusive of nonadmitted assets as the change in nonadmitted assets is reported separately from the change in net deferred income taxes in the surplus section of the annual statement):

	December 31 2011	December 31 2010	Change
Total deferred tax assets	\$ 211,299,578	\$ 212,184,273	\$ (884,695)
Total deferred tax liabilities	<u>(107,671,860)</u>	<u>(179,901,243)</u>	<u>72,229,383</u>
Net deferred tax asset	<u>\$ 103,627,718</u>	<u>\$ 32,283,030</u>	71,344,688
Tax effect of unrealized (gains)/losses			5,403,994
Tax effect of other adjustments			<u> </u>
Change in net deferred income tax (Decrease to Surplus)			<u>\$ 76,748,682</u>

The actual effective tax rate differs from the effective Alternative Minimum Tax (AMT) rate of 20 % primarily due to the tax impact recognized on the tax adjustments attributable to prior years.

Under current tax law, the Company is subject to the 20% AMT rate. Given the preference items afforded Blue Cross and Blue Shield organizations, management believes it is likely to remain an AMT taxpayer. The deferred tax assets are recorded at the AMT tax rate of 20%. In addition, the Company has an AMT credit carry forward of \$451,748,267. Even though the credit can be carried forward indefinitely and will not expire, the credit is not carried as a deferred tax asset, because no utilization of the credit can occur unless either: a) the Company’s tax preferences as a Blue Cross and Blue Shield organization are legislatively repealed; or b) the Company fails the medical loss ratio under IRC §833(c)(5).

The Company and its taxable subsidiary Accident Fund Holdings file a consolidated federal income tax return. Each taxable subsidiary is responsible for its own federal tax liability and the Company has tax sharing agreements in place with Accident Fund Holdings. Another subsidiary, LifeSecure, is also taxable, but existing tax rules do not permit consolidation with nonlife entities for the first five years of ownership. The first year of consolidation with LifeSecure will be tax year 2012. The Company’s tax returns have been audited and settled through 2005. The Company’s tax returns for 2006 were subject to a limited scope audit that resulted in no findings. In February 2011, the IRS began the audit of the Company’s tax returns for the period 2006-2009.

The Company has evaluated all tax positions as to their relative uncertainty/certainty. On examination of all relevant facts and circumstances for the Company's tax issues, it was determined that no liability for tax contingencies was warranted as of December 31, 2011 and 2010. In addition, the Company believes this position will not change in the next twelve months. The Company recognizes interest and penalties, if any, related to any tax contingencies in income tax expense. As of December 31, 2011 and 2010, the Company has not recorded any amounts from interest and penalties.

SSAP No. 10 normally allows the Company to recognize gross DTA in excess of gross DTL only to the extent that the gross DTA in excess of gross DTL are expected to be realized within one year of the balance sheet date, not to exceed 10% of the Company's adjusted capital and surplus. In annual periods ended December 31, 2011 and 2010, SSAP No. 10R temporarily allows the Company to elect to recognize gross DTA in excess of gross DTL expected to be realized within three years of the balance sheet date, not to exceed 15% of the Company's adjusted capital and surplus. In applying the criteria under SSAP No. 10R to determine its gross adjusted deferred tax assets of \$211,299,578, and net admitted tax assets of \$103,627,718 in 2011, the Company did not utilize any explicit tax planning strategies.

10. INFORMATION CONCERNING PARENT, SUBSIDIARIES AND AFFILIATES AND OTHER RELATED PARTIES

The Company owns 100% of Blue Care Network of Michigan ("BCNM"), a HMO subsidiary that provides health care services to subscribers and contracts with various physician groups, hospitals and other health care providers to provide such services. The Company also owns 100% of Accident Fund Holdings, Inc. ("AFHI"), the holding company of Accident Fund Insurance Company of America ("Accident Fund"), a provider of workers' compensation insurance. Additionally, the Company owns 100% of LifeSecure Holdings Corporation, the holding company of LifeSecure Insurance Company, a long-term care insurance subsidiary.

The Company has agreements with each of its wholly owned subsidiaries under which both or either parties may provide services to each other. The agreements provide for monthly payments and a year-end settlement based on actual cost of services performed. All related-party receivable and payable balances are recorded as either amounts due to or from subsidiaries and affiliates.

At December 31, 2011 and 2010, the Company had receivables from subsidiaries amounting to \$88,506,933 and \$92,583,505 respectively, and payable to subsidiaries of \$51,755,461 and \$17,144,256 respectively.

The receivables are primarily due to management and administrative services performed by the Company. In addition, as described in Note 12, an intercompany receivable in the amount of \$72,152,782 was established for postretirement costs that will be paid to the Company by BCNM over a 20-year period as a result of the BCNM employees becoming the Company employees effective January 1, 2010. The outstanding balance of this intercompany receivable as of December 31, 2011 and 2010 is \$62,887,420 and \$64,788,641, respectively.

The payables are primarily attributable to hospital settlement recoveries attributable to BCNM of \$32,213,790 and \$1,091,418 respectively. Under this agreement, BCNM's portion of underpayments due to hospitals or overpayment recoveries from hospitals will be established as a receivable or payable by the Company as applicable. The payable balance also includes intercompany deferred tax and tax sharing amounts of \$17,458,594 and \$14,375,499 in 2011 and 2010, respectively, for the Company's taxable subsidiaries.

The Company also performs various claims processing and management services. During 2011 and 2010, these services performed for affiliates totaled \$994,140,621 and \$1,161,359,678 respectively. No dividends were declared from the subsidiaries in 2011 or 2010.

The Company has provided the following guarantees for its subsidiaries and affiliates.

BCNM — In accordance with the Blue Cross Blue Shield Association guidelines, the Company guarantees to the full extent of its assets, all of the contractual and financial obligations of Blue Care Network of Michigan and Blue Care of Michigan, Inc and their subsidiaries, to its customers. At December 31, 2011, BCNM's minimum capital threshold is approximately \$169,000,000. BCNM statutory surplus is approximately \$715,000,000 as of December 31, 2011.

LifeSecure — The Company shall take all actions reasonably necessary to insure that LifeSecure is in compliance with the state of Rhode Island and the State of California's statutory requirements including maintaining a level of capital and surplus required by the applicable provisions of the Insurance Code of the state of Rhode Island and state of California. At December 31, 2011, LifeSecure's minimum capital threshold is approximately \$8,000,000. LifeSecure's statutory surplus is approximately \$26,000,000 at December 31, 2011. Also, the Company executed a financial guarantee agreement with American Fidelity

Assurance Company (AFA) to facilitate the reinsurance transaction between LifeSecure and AFA. The Company’s maximum guarantee is approximately \$50,000,000 to \$60,000,000.

EIN — As part of the lease transaction with EIN, the Company has executed a financial guarantee with the lessor in the event that EIN fails to pay any amounts due and owing under the lease. The approximate net present value of the rent obligation for the 15-year lease term is \$65,000,000.

11. DEBT

The carrying value of the outstanding loans as of December 31, 2011 and 2010 is as follows:

	2011	2010
Federal Home Loan Bank of Indianapolis (FHLBI): 0.12%, due 2016	\$ 46,000,000	\$ 46,000,000
FHLBI: 0.33% - 3.40%, due 2011 - 2018 (includes accrued interest)	1,008,250,191	648,046,626
Bank of Nevada secured debt: 4.73% due 2013	19,033,164	-
RBS Asset secured debt: 3.46% - 4.65%, due 2013 - 2014	<u>25,287,050</u>	<u>-</u>
Total outstanding debt	<u>\$ 1,098,570,405</u>	<u>\$ 694,046,626</u>

In 2011, the Company paid off its sale-leaseback obligations. Part of the payoff was financed through new borrowings from FHLBI at lower interest rates and part was converted to secured debt at Bank of Nevada and RBS. The non-FHLBI debt weighted average borrowing rate is 4.4 percent.

The \$46,000,000 borrowing has a 10-year term and is subject to floating interest provisions that are reset every three months based on the FHLBI's cost of funds.

The Company, as a member of the FHLBI, has short-term, long-term and line of credit borrowing privileges. Outstanding borrowings with the FHLBI total \$1,054,250,191 and \$694,046,626 at December 31, 2011 and December 31, 2010, respectively. All FHLBI debt is collateralized by government securities at 105% of the outstanding loan balance. The weighted-average borrowing rate at December 31, 2011 and 2010 is 1.64% and 2.00%, respectively.

The table below summarizes available letters of credit related to the secured debt.

Letter of Credit Commitments	Expiration Date	% of Financed Amount	Available Amount
Bank of Nevada	2014	100%	\$ 19,000,000
RBS Asset	2014	100%	11,196,000
RBS Asset	2015	100%	14,955,000

Total debt interest expense as of December 31, 2011 and 2010, was \$16,286,000 and \$12,913,000 respectively.

As of December 31, 2011 and 2010, the carrying value of the outstanding debt approximates fair value.

As of December 31, 2011, future minimum payments required for the outstanding borrowings due are as follows:

Years Ending
December 31

2012	\$ 112,442,051
2013	384,645,340
2014	5,483,014
2015	150,000,000
2016	96,000,000
2017 and thereafter	<u>350,000,000</u>
Total minimum payments	<u>\$ 1,098,570,405</u>

12. RETIREMENT PLANS, DEFERRED COMPENSATION, POST EMPLOYMENT BENEFITS AND COMPENSATED ABSENCES AND OTHER POSTRETIREMENT BENEFIT PLANS

Defined Contribution Plan — Represented employees of the Company who have attained the age of 21 years and have completed three months of continuous service are automatically enrolled in the savings plan for represented employees. Non-represented employees over 21 years of age are automatically enrolled in the savings plan for non-represented employees upon their employment commencement date. Both savings plans are tax-qualified under Section 401(k) of the Internal Revenue Code (IRC). For both non-represented and represented employees, the Company matches 50% of employee contributions up to 10% of biweekly adjusted W-2 wages for employees with one year of continuous service. The IRC limit on elective employee deferrals was \$ 16,500 for 2011 and 2010, respectively. The IRC allows catch-up contributions in addition to normal, elective contributions for employees who are age 50 or older as of December 31 in the amount of \$ 5,500 for 2011 and 2010, respectively. Catch-up contributions are not matched by the Company. The Company's expense for matching contributions totaled approximately \$14,981,000 and \$13,666,000 for 2011 and 2010, respectively.

Defined Benefit Plan — Company has two defined benefit pension plans as follows:

Retirement Account Plan — Non-represented employees who meet specified age and service requirements participate in this plan which is a cash balance arrangement. Pension benefits of participants in this plan become vested after three years of service. Participants have an initial account balance to which interest and earnings credits are added.

Participants employed prior to January 1, 1999 have an initial account balance based on their accrued benefit under a prior defined benefit plan the Company sponsored for non-represented employees while non-represented participants hired after January 1, 1999 have an initial account balance of zero. Subject to an annual 4 percent minimum, interest is credited quarterly based on the yield on one year Treasury Constant Maturities for the August immediately preceding the plan year. Annual earnings credits ranging from 3% to 10% based on date of hire are credited on a monthly basis. Employees can elect to receive lump sum value of their vested account balance upon termination or can elect monthly payments or a lump sum upon retirement age.

Represented Employees' Retirement Income Plan — Represented employees who meet specified age and service requirements participate in this plan which for represented employees hired prior to January 1, 2009 is an average final pay plan and for post January 1, 2009 new hires is a cash balance plan. Participants benefiting under the cash balance provisions vest after three years of service while participants benefiting under the final average pay provisions vest after five years of service. Under the final average pay provisions, the post-retirement monthly benefit is 1.4% times average monthly earnings times years of credit service. Effective January 1, 2009 (January 1, 2010 for Accident Fund employees), the plan provides an account balance that grows through earnings and interest credits similar to the plan for non-represented employees. Each month, represented employees benefiting under the cash balance provisions receive earning credits of 4 percent of the monthly adjusted W-2 pay. Interest is credited quarterly and is based on the yield of one year Treasury Constant Maturities for the August immediately preceding the plan year. Represented participants participating under the plan's cash balance provisions can elect to receive lump sum value of their vested account balance upon termination or monthly payments or a lump sum at retirement age.

Effective, January 1, 2009, all employees of Blue Care Network, became employees of the Company. As part of the employee transfer, the Company assumed responsibility for administering and funding pension and other postretirement benefits for the former Blue Care Network employees and retirees. Current pension and postretirement costs are reimbursed to the Company from Blue Care Network on a pay as you go basis. Intercompany cash transfers of \$ 6,234,000 and \$3,122,000 in 2011 and 2010, respectively were made between Blue Care Network and the Company for pension costs. Also BCN paid the Company \$ 7,987,000 and \$5,458,000 in 2011 and 2010, respectively, for its share of the post retiree health care costs. In exchange for assuming the prior years unfunded postretirement health obligation of \$72,153,000 the parties executed an intercompany transfer agreement, whereby Blue Care Network will repay the obligation assumed by the Company with annual installments, over a 20-year term, of \$3,608,000 annually beginning in 2009. The intercompany postretirement balance was \$ 62,887,420 and \$64,788,641 at 2011 and 2010, respectively.

Pension Trust Investment Policy — Plan assets for both the non-represented and represented employee's pension plans are held in a single Master Trust with State Street Bank. Each plan owns its allocable share of all Master Trust assets. Master Trust assets are for the exclusive benefit of participants and can only be used to pay plan benefits and administrative expenses. Plan assets in the Master Trust are currently managed by 11 external investment managers with assets allocated to equity, fixed-income securities, cash and alternative investments based on investment policies and objectives.

The Company's investment policy is based on its objectives, characteristics of pension liabilities, capital market expectations, and asset-liability projections. The policy is long-term oriented and consistent with the Company's risk posture and periodically reviewed by the Pension Asset Advisory Committee. The pension asset allocation policy is currently transitioning to an allocation that will reduce balance sheet and funding volatility for the

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Company while ensuring the continued maintenance of trust assets sufficient to cover plan benefits and expenses. In the past the allocation strategy placed greater emphasis on achieving asset performance targets and had a greater allocation of return-seeking assets. The ultimate target allocation is 60% long duration fixed income securities and 40% return-seeking assets. Return-seeking assets under the policy are defined as any asset class other than long duration fixed income securities and include publicly traded equities, publicly traded high-yield fixed income securities and fund of fund private equity. At December 31, 2011, the actual allocation of Plan assets is approximately 30% long duration fixed income securities and 70% return-seeking assets. The targeted pension asset allocation under the investment policy will occur over the next several years as the funded status of the pension improves. Under the policy, at least 95% of pension assets will at all times be invested in publicly traded equities and fixed income securities and cash.

The Company provides certain health care and selected other post-retirement benefits to all eligible employees and dependents of employees who retire from active employment. Eligibility for post-retirement health care is subject to following benefit and service eligibility requirements:

Non-represented Employees Hired	Prior to 1/1/04	After 1/1/04 but Before 1/1/07	On or After 1/1/07
Years of service requirement	10 after age 45	15 after age 45	15 after age 45
Participants benefit cost responsibility	N/A	N/A	100 %
Cap on annual increase in health care costs paid by the Company if not retired by 1/1/10 ^(a)	4 %	4 %	N/A
Represented Employees Eligible to Retire	Prior to 12/31/2016		After 12/31/2016
Years of service requirement	10 after age 45		15 after age 45
Premium Sharing	No		Yes

All participants in the non-represented plan and the represented plan, respectively, are required to enroll in the Medicare Advantage program upon reaching age 65. Represented employees hired after January 1, 2009 do not participate in post-retirement health care.

This benefit is subject to revision at the discretion of the Chief Executive Officer for non-represented employees and for represented employees, subject to collective bargaining agreements.

A summary of assets, obligations, and assumptions of the pension and other postretirement benefit plans at plan measurement dates of September 30, 2011 and 2010, and as recorded as of December 31, 2011 and 2010, are as follows:

	Pension Benefits		Postretirement Benefits	
	2011	2010	2011	2010
Change in benefit obligation:				
Benefits obligation — beginning of year	\$ 1,101,605,000	\$ 1,004,090,000	\$ 632,644,000	\$ 475,003,000
Service cost	40,186,000	33,290,000	32,988,000	23,994,000
Interest cost	58,006,000	59,264,000	33,719,000	29,672,000
Actuarial loss (gain)	1,574,000	94,978,000	(47,470,000)	130,405,000
Benefits and administrative expenses paid	(57,626,000)	(90,017,000)	(30,721,000)	(26,430,000)
Amendments	206,000			
BCN employee merger				
Curtailment/settlement recognition				
Benefits obligation — end of year	<u>\$ 1,143,951,000</u>	<u>\$ 1,101,605,000</u>	<u>\$ 621,160,000</u>	<u>\$ 632,644,000</u>

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	Pension Benefits		Postretirement Benefits	
	2011	2010	2011	2010
Change in plan assets:				
Fair value of plan assets — beginning of year	\$ 725,760,000	\$ 727,241,000	\$	\$ -
Actual return on plan assets	42,541,000	78,042,000		
Contributions received	79,576,000	7,447,000		
Benefits and administrative expenses paid	<u>(54,422,000)</u>	<u>(86,970,000)</u>		
Fair value of plan assets — end of year	<u>\$ 793,455,000</u>	<u>\$ 725,760,000</u>	<u>\$</u>	<u>\$ -</u>

	Pension Benefits		Postretirement Benefits	
	2011	2010	2011	2010
Funded status:				
Projected benefit obligation	\$ 1,143,950,000	\$ 1,101,605,000	\$ 621,159,000	\$ 632,644,000
Fair value of plan assets	<u>793,455,000</u>	<u>725,760,000</u>		
Unfunded status	350,495,000	375,845,000	621,159,000	632,644,000
Unamortized prior service cost	(6,316,000)	(6,747,000)	34,637,000	42,610,000
Unrecognized net (loss) gain	(443,357,000)	(430,751,000)	(156,487,000)	(215,989,000)
Contribution between measurement date and fiscal year end	(721,000)	(815,000)		
Additional minimum liability	<u>370,515,000</u>	<u>345,854,000</u>		
Net pension liability	<u>\$ 270,616,000</u>	<u>\$ 283,386,000</u>	<u>\$ 499,309,000</u>	<u>\$ 459,265,000</u>
Accrued pension expense included in other liabilities	\$ 270,616,000	\$ 283,386,000	\$ 499,309,000	\$ 459,265,000
Information for pension plans with an accumulated benefit obligation in excess of plan assets:				
Projected benefit obligation	1,143,951,000	1,101,604,000		
Accumulated benefit obligation	1,064,793,000	1,009,960,000		
Fair value of plan assets	793,455,000	725,760,000		

Pursuant to the guidance contained in SSAP No. 89, *Accounting for Pensions*, when the accumulated benefit obligation (ABO) of the pension plan exceeds fair value of plan assets at the measurement date, an additional minimum liability (AML) is required to be recognized in the Company’s statutory basis financial statements, with a corresponding reduction to statutory surplus. The AML amounts at December 31, 2011 and 2010 are \$ 370,515,000 and \$345,854,000. The AML was largely due to decline in the financial markets which results in lower asset values and discount rates used to measure the pension plan obligations.

Projected benefit obligation as of December 31, 2011 and 2010, for non-vested employees are as follows:

	Pension Benefits		Postretirement Benefits	
	2011	2010	2011	2010
Projected benefit obligation for nonvested employees	<u>\$ 16,544,000</u>	<u>\$ 14,435,000</u>	<u>\$ 110,599,000</u>	<u>\$ 142,462,000</u>

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Components of net periodic benefit cost as of December 31, 2011 and 2010 are as follows:

	2011	2010	2011	2010
Service cost	\$ 40,186,000	\$ 33,290,000	\$ 32,988,000	\$ 23,994,000
Interest cost	58,006,000	59,264,000	33,719,000	29,672,000
Expected return on plan assets	(69,144,000)	(81,042,000)		
Amortization	<u>16,209,000</u>	<u>3,959,000</u>	<u>4,059,000</u>	<u>(4,676,000)</u>
Net periodic benefit cost	45,257,000	15,471,000	70,766,000	48,990,000
Curtailment/settlement	<u></u>	<u>(32,000)</u>	<u></u>	<u></u>
Total benefit cost	<u>\$ 45,257,000</u>	<u>\$ 15,439,000</u>	<u>\$ 70,766,000</u>	<u>\$ 48,990,000</u>

The assumptions used in determining the actuarial present value of the projected benefit obligations as of December 31, 2011 and 2010, as listed above are as follows:

	<u>Pension Benefits</u>		<u>Benefits</u>	
	2011	2010	2011	2010
Discount rate	5.15 %	5.25 %	5.60 %	5.70 %
Rate of compensation increase	5.58	5.59		
Expected long-term rate of return on plan assets	8.00	9.00		

For 2011 measurement purposes, the health care trend rate on covered postretirement benefits is assumed to be:

	Pre 65	Medicare Advantage	Medicare Advantage PPO	Medicare Advantage HMO
Trend Rate in 2011	8.40 %	7.60 %	13.20 %	9.84 %
Grading down to in 2020 and beyond	5.00 %	5.00	5.00	5.00

For 2011 measurement purposes, the drug care trend rate on covered postretirement benefits is assumed to be 7.6% for 2012, ratably downgrading to 5% by 2016 and all years thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total of service and interest cost components	\$ 9,019,000	\$ 6,464,000
Effect on postretirement benefit obligation	85,596,000	65,719,000

As of December 31, 2011, the gross benefit payments expected to be paid and Medicare Part D subsidies anticipated to be received by the Company are as follows:

Years Ending December 31	<u>Pension Benefits</u>	<u>Postretirement Benefits</u>	
	Future Benefit Payments	Future Benefit Payments	Anticipated Future Subsidies
2012	\$ 55,030,000	\$ 39,390,000	\$ 2,240,000
2013	64,010,000	41,350,000	2,570,000
2014	73,010,000	43,580,000	2,930,000
2015	82,190,000	46,120,000	3,290,000
2016	83,530,000	48,170,000	3,680,000
2017 through 2019	<u>472,550,000</u>	<u>275,240,000</u>	<u>24,880,000</u>
Total	<u>\$ 830,320,000</u>	<u>\$ 493,850,000</u>	<u>\$ 39,590,000</u>

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The fair values of the Company’s retirement income plan assets by asset category at September 30, 2011 are as follows:

	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash equivalents	\$ 38,403,000	\$ 2,174,000	\$	\$ 40,577,000
Commingled Pension Trust ^(A)		207,831,000		207,831,000
Insurance Annuity Contract			566,000	566,000
Limited Partnership			37,436,000	37,436,000
Equity securities - U.S. Companies	214,786,000	17,375,000	214,000	232,375,000
U.S. Treasury securities	78,352,000			78,352,000
Corporate bonds ^(B)		194,713,000	42,000	194,755,000
Mortgage-backed securities		1,220,000	343,000	1,563,000
Total	\$ 331,541,000	\$ 423,313,000	\$ 38,601,000	\$ 793,455,000

- ^(A) Includes pension master trust’s interest in PIMCO Stock Plus Limited Partnership, a commingled fund representing the pension core equity allocation and bench marked against the S&P 500 of \$ 143,935,000 and master trust’s holding in Capital Guardian Non US Equity Fund, a commingled trust representing the pension’s international equity allocation \$ 63,890,000.
- ^(B) Corporate bonds include fixed-income securities in separately managed portfolios. The diversified fixed income mandate is targeted at 30% of pension assets and is managed by Western. Loomis Sayles manages a high yield fixed-income portfolio targeted at 9% of pension assets.

The fair values of the Company’s retirement income plan assets by asset category at September 30, 2010 are as follows:

	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash equivalents	\$ 31,844,000	\$ 38,000	\$ -	\$ 31,882,000
Commingled Pension Trust '©		215,845,000		215,845,000
Insurance Annuity Contract			658,000	658,000
Limited Partnership			24,562,000	24,562,000
Equity securities - U.S. Companies	275,830,000	2,116,000		277,946,000
U.S. Treasury securities	14,414,000			14,414,000
Corporate bonds ^(D)		122,622,000		122,622,000
Mortgage-backed securities		37,831,000		37,831,000
Total	\$ 322,088,000	\$ 378,452,000	\$ 25,220,000	\$ 725,760,000

- ^(C) Includes pension master trust’s interest in PIMCO Stock Plus Limited Partnership, a commingled fund representing the pension core equity allocation and bench marked against the S&P 500 of \$147,209,000 and master trust’s holding in Capital Guardian Non US Equity Fund, a commingled trust representing the pension’s international equity allocation \$68,636,000.
- ^(D) Corporate bonds include fixed-income securities in separately managed portfolios. The diversified fixed income mandate is targeted at 11.2% of pension assets and is managed by Western. Loomis Sayles manages a high yield fixed-income portfolio targeted at 13.1% of pension assets.

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The following table presents the Company’s assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for 2011 and 2010:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Equities	Limited Partnership	Insurance Annuity	Other	Total
Beginning balance at October 1, 2009	\$ 46,000	\$ 16,871,000	\$ 4,189,000	\$ 0	\$ 21,106,000
Actual return on plan assets:					
Relating to assets still held at the reporting date		2,413,000			2,413,000
Relating to assets sold during the period	29,000		903,000		932,000
Purchases, sales, and settlements	(75,000)	5,278,000	(2,892,000)		2,311,000
Transfers in and/or out of Level 3			(1,542,000)		(1,542,000)
Ending balance at September 30, 2010		24,562,000	658,000	0	25,220,000
Actual return on plan assets:					
Relating to assets still held at the reporting date	80,000	8,122,000		1,000	8,203,000
Relating to assets sold during the period					
Purchases, sales, and settlements		4,752,000	(92,000)	342,000	5,002,000
Transfers in and/or out of Level 3	134,000			42,000	176,000
Ending balance at September 30, 2011	\$ 214,000	\$ 37,436,000	\$ 566,000	\$ 385,000	\$ 38,601,000

The Company contributed \$79,576,000 in 2011 and \$7,477,000 in 2010 to its defined benefit pension plans. As of December 31, 2011, the Company expects to contribute \$100,000,000 to its defined benefit pension plans in 2012.

Nonqualified Plans — Retirement benefits are provided for a group of key employees under nonqualified defined benefit pension plans. The general purpose of the plans is to provide additional retirement benefits to participants who are subject to the contribution and benefit limitations contained in the Internal Revenue Code. Benefits under the plans are unfunded and paid out of the general assets of the Company. The accumulated benefit obligation for these plans was \$30,806,000 and \$31,279,000 at September 30, 2011 and 2010, respectively.

13. CAPITAL AND SURPLUS, SHAREHOLDERS’ DIVIDEND RESTRICTIONS AND QUASI-REORGANIZATIONS
- A. Under the provisions of P.A. 350 of the State of Michigan, the Company must maintain adequate subscriber reserves to comply with Section 403 of the Michigan Insurance Code, which requires authorized insurers to be safe, reliable and entitled to public confidence. As a result, the Company is required to file with OFIR, on an annual basis, its risk-based capital (“RBC”) calculation based on the National Association of Insurance Commissioners (“NAIC”) model. P.A. 350 requires the Company to maintain a RBC ratio of at least 200% but not to exceed 1,000% of subscriber reserves. In addition, under the terms of the Company’s license agreement with the Blue Cross Blue Shield Association (“BCBSA”), if the Company’s RBC ratio is between 375% and 200%, it is subject to financial monitoring. If the Company’s RBC ratio falls below 200%, the license agreement with BCBSA is subject to termination. At December 31, 2011 and December 31, 2010, the Company was in compliance with both the OFIR and BCBSA RBC requirements.

B. BCBSM has no preferred stock outstanding.

C. Under the provisions of P.A. 350, the Company is deemed a charitable and benevolent institution whose primary purpose is to promote the distribution of healthcare services for all Michigan residents. As such, the Company has no investors or contributed capital.

D. Dividend payment restriction – NOT APPLICABLE

E. Surplus Restriction – NOT APPLICABLE

F. The total amount of advances to surplus not repaid – NOT APPLICABLE

G. The amount of stock held by BCBSM for special purposes – NOT APPLICABLE

H. Special surplus funds changes – NOT APPLICABLE

I. The portion of unassigned funds (surplus) represented or reduced by each item below:

a. Unrealized gains and losses	\$	75,558,503
b. Nonadmitted asset values	\$	(192,897,813)
c. Provision for reinsurance	\$	-

- J. Surplus debentures of similar obligations – NOT APPLICABLE
- K. Impact of any restatement due to quasi-reorganization – NOT APPLICABLE
- L. Effective dates of all quasi-reorganizations in the prior 10 years – NOT APPLICABLE

14. CONTINGENCIES

- A. Contingent Commitments – NOT APPLICABLE
- B. Assessments – NOT APPLICABLE
- C. Gain Contingencies – NOT APPLICABLE
- D. Claims Related Extra Contractual Obligation Lawsuits – NOT APPLICABLE
- E. All Other Contingencies

Hospital Contracts — On October 18, 2010 the U.S. Department of Justice filed a lawsuit against the Company seeking to restrict its ability to provide the most deeply discounted rates from Michigan hospitals alleging that the use of most favored nation provisions in hospital contracts restricts marketplace competition. The Department of Justice is seeking injunctive relief that would prevent the Company from using similar language in any of its current or future contracts with providers. The lawsuit is not seeking financial damages. Five civil lawsuits alleging the similar legal arguments as the U.S. Department of Justice lawsuit have also been filed seeking injunctive and monetary relief. At this time, the amount of damages being sought in the civil matters is unknown. The Company believes that these lawsuits are without merit and will vigorously defend its ability to negotiate the deepest possible discounts for its members and customers with Michigan hospitals. As these lawsuits are in the early stages of development, it is not yet possible to make an assessment regarding probability of an adverse outcome, nor estimate a range of potential loss.

Customer Disputes — The Company is currently involved in lawsuits with several local self-funded group customers that allege the Company charged the groups provider network and other fees without their knowledge. The groups allege breach of contract and fiduciary duty. These cases are in various stages of development. The Company believes it has meritorious defenses and has appealed these decisions.

Accident Fund — In 2007 the Company made a \$125,000,000 capital contribution to the Accident Fund to ensure that the subsidiary maintained its financial rating and competitive position in the marketplace. The Michigan Attorney General filed a lawsuit that the capital contribution violated PA 350 which prohibits the Company from subsidizing the Accident Fund. After several years of litigation, this issue is on appeal in the Michigan Supreme Court. The Company believes it has meritorious defenses in this matter. In the event of an adverse outcome on this matter, management has at its disposal, other available financing vehicles to restructure this transaction.

Other — The Company is a defendant in numerous other lawsuits and involved in other matters arising in the normal course of business primarily related to subscribers’ benefits, breach of contracts, provider reimbursement issues and provider participation arrangements. The Company vigorously defends these matters and while the ultimate outcome of these lawsuits are not final, the Company’s management as of December 31, 2011, estimates that these matters will be resolved without a material adverse effect on the Company’s future financial position or results of operations.

15. LEASES

During 2011, the Company paid-off all its sale-leaseback obligations entered into prior to December 31, 2010.

	December 31, 2011	December 31, 2010
RBS Asset Finance Inc. (RBS Asset) — 4.73% — maturity — 2013	\$ -	\$ 29,223,766
RBS Asset — 3.46% — maturity — 2013	-	16,074,644
RBS Asset — 4.65% — maturity — 2014	-	19,386,746
Banc of America Leasing & Capital, LLC — 4.75% —maturity — 2013		47,144,466
Banc of America Leasing & Capital, LLC — 4.75% — maturity — 2014	-	7,818,464
Banc of America BK Leumi — 4.79% — maturity — 2015		7,794,549
Banc of America MB Bank — 4.86% — maturity — 2015	-	8,777,046
Banc of America BK Leumi — 4.86% — maturity — 2015	-	3,014,486
Banc of America Leasing & Capital, LLC — 3.60% — maturity — 2013	-	5,348,990
Fifth Third Bank — 5.15% — maturity — 2014	-	14,385,643
Siemens Financial, Inc. — 5.95% — maturity — 2014		<u>11,656,455</u>
Total	<u>\$ 0</u>	<u>\$ 170,625,255</u>

In December 2010, the Company entered into a long-term lease to occupy space in the GM Renaissance Center in downtown Detroit, Michigan. Under the terms of the lease agreement, EIN is the lessee of the office space and employee parking facilities and the Company holds a sublease from EIN. In addition, the Company leases certain computer equipment and office space under various non-cancelable operating leases. Rental expense for the periods ending December 31, 2011 and December 31, 2010 was \$8,893,000 and \$8,146,000, respectively. As of December 31, 2011, future minimum lease payments, which include the GM Renaissance Center lease, are as follows:

Years Ending December 31

2012	\$ 10,566,815
2013	11,899,560
2014	8,876,954
2015	8,652,169
2016	8,960,395
2017 and thereafter	<u>74,024,757</u>
Total	<u>\$ 122,980,650</u>

16. INFORMATION ABOUT FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK – NOT APPLICABLE

17. SALE, TRANSFER AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES –

The Company, in the normal course of business, enters into security lending agreements with a custodian bank. Under this agreement, the Company maintains a policy with the custodian bank to lend equity and bond securities in exchange for collateral consisting primarily of cash or U.S. government-backed securities, approximating at least 102% of the value of the securities loaned. The policy adheres to quality, duration, and counter-party risk of various securities loaned. The custodian indemnifies all non-cash risks. The collateral is marked to market on a daily basis. Cash collateral is invested by the custodian bank in commingled trusts. The security lending agreements are primarily overnight in nature and subject to renewal or termination. If the agreement is terminated, the securities are returned to the Company. At December 31, 2011 and 2010, the Company loaned securities with a fair value of \$27,079,301 and \$446,578,042, respectively, with corresponding cash collateral of \$27,654,579 and \$417,738,094, respectively and non-cash collateral of \$0 and \$38,035,382, respectively.

18. GAIN OR LOSS TO THE REPORTING ENTITY FROM UNINSURED PLANS AND THE UNINSURED PORTION OF PARTIALLY INSURED PLANS

A. ASO Plans – NOT APPLICABLE

B. ASC Plans - The loss from operations of administrative service contracts (ASC) uninsured plans and the uninsured portion of partially insured plans (ASC plans with stop loss coverage) for the period ended December 31, 2011, are as follows:

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	ASC Plans without StopLoss	ASC Plans With StopLoss	Total
Gross reimbursement for medical cost incurred	\$ 3,955,754,528	\$ 5,903,457,381	\$ 9,859,211,909
Gross administrative fees accrued	328,080,952	491,716,331	819,797,283
Gross expenses incurred (claims and administrative)	4,320,703,643	6,465,749,070	10,786,452,712
Total net gain (loss) from operations	<u>\$ (36,868,163)</u>	<u>\$ (70,575,358)</u>	<u>\$ (107,443,519)</u>
Net Underwriting Gain(Loss)	Insured	ASC	Total
Premiums fees and reimbursements	<u>\$ 6,395,397,758</u>	<u>\$ 10,679,009,193</u>	<u>\$ 17,074,406,951</u>
Claims Incurred	5,556,566,983	9,859,211,909	15,415,778,892
Administrative Expenses	<u>843,326,914</u>	<u>927,240,803</u>	<u>1,770,567,717</u>
Total Operating Expenses	6,399,893,897	10,786,452,712	17,186,346,609
Underwriting Loss before PDR	(4,496,140)	(107,443,519)	(111,939,658)
Premium Deficiency Reserve	<u>63,103,000</u>	<u>-</u>	<u>63,103,000</u>
Underwriting Loss After PDR	<u>\$ 58,606,861</u>	<u>\$ (107,443,519)</u>	<u>\$ (48,836,658)</u>

The (loss) gain from operations of administrative service contracts (ASC) uninsured plans and the uninsured portion of partially insured plans for the period ended December 31, 2010, are as follows:

	ASC Plans without StopLoss	ASC Plans With StopLoss	Total
Gross reimbursement for medical cost incurred	\$ 2,785,631,516	\$ 6,060,047,445	\$ 8,845,678,961
Gross administrative fees accrued	219,611,498	493,954,756	713,566,254
Gross expenses incurred (claims and administrative)	3,000,496,557	6,564,223,826	9,564,720,384
Total net gain (loss) from operations	<u>\$ 4,746,457</u>	<u>\$ (10,221,626)</u>	<u>\$ (5,475,169)</u>
Net Underwriting Gain(Loss)	Insured	ASC	Total
Premiums fees and reimbursements	<u>\$ 6,574,692,435</u>	<u>\$ 9,559,245,215</u>	<u>\$ 16,133,937,650</u>
Claims Incurred	5,793,567,136	8,845,678,961	14,639,246,097
Administrative Expenses	<u>806,811,104</u>	<u>719,041,423</u>	<u>1,525,852,527</u>
Total Operating Expenses	6,600,378,240	9,564,720,384	16,165,098,624
Underwriting Loss before PDR	(25,685,805)	(5,475,169)	(31,160,974)
Premium Deficiency Reserve	<u>(42,794,000)</u>	<u>-</u>	<u>(42,794,000)</u>
Underwriting Loss After PDR	<u>\$ (68,479,805)</u>	<u>\$ (5,475,169)</u>	<u>\$ (73,954,974)</u>

C. Medicare or Similarly Structured Cost Based Reimbursement Contract – NOT APPLICABLE

19. DIRECT PREMIUM WRITTEN/PRODUCED BY MANAGING GENERAL AGENTS/THIRD PARTY ADMINISTRATORS - NOT APPLICABLE

20. FAIR VALUE MEASUREMENTS

The Company determines fair values by applying the following guidelines. If available, the Company uses market prices in active markets for identical assets and classifies these assets as Level 1. When market prices for similar financial instruments in an active market are not available, the Company estimates fair value based on pricing models using matrix pricing or price discovery and classifies these assets as Level 2. In situations where there is

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little or no market activity for same or similar financial instruments, the Company estimates fair value using its own assumptions about future cash flows and appropriate risk-adjusted discount rates and classifies these assets as Level 3.

The following table summarizes the Company's assets recorded at fair value as of December 31, 2011 that are measured on a recurring basis.

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Lack of Observable Inputs (Level 3)	Total Fair Value
Bonds				
U.S. Governments		49		49
Total bonds	-	49	-	49
Common stock				
Industrial and miscellaneous	652,410,821			652,410,821
Total common stock	652,410,821	-	-	652,410,821
Commingled international equity funds		49,310,978		49,310,978
Total investments	\$ 652,410,821	\$ 49,311,027	\$ -	\$ 701,721,848

The following table presents our assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of December 31, 2011 and December 31, 2010:

	12/31/2011	12/31/2010
Beginning Balance ⁽¹⁾	\$ -	\$ 16,827,000
Total gains or losses (realized/unrealized):		
Included in earnings	-	(3,587,000)
Included in other comprehensive income	-	177,000
Purchases, issuances, and settlements	-	(4,350,000)
Transfers in and/or out of Level 3	-	-
Other ⁽²⁾	-	(9,067,000)
Ending Balance	\$ -	\$ -
The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at December 31	\$ -	\$ (3,410,000)

⁽¹⁾ Current assumptions include alternative investments not included at year-end 2010.

⁽²⁾ At December 31, 2011 and December 31, 2010, the collateralized debt obligations are valued at adjusted carrying value and therefore not reported as Level 3 assets.

21. OTHER ITEMS

- A. Extraordinary Items – NOT APPLICABLE
- B. Troubled Debt Restructuring – NOT APPLICABLE
- C. Other Disclosures:

Blue Cross Blue Shield Association ("BCBSA") Deposit - As part of its Blue Cross Blue Shield Association ("BCBSA") license requirements, the Company is required to maintain a custodial bank account to assure the payment of claims in the event of the Company's insolvency. The account balance is calculated as a percentage of the Company's unpaid claim liability and consists primarily of marketable securities. The funds in the account are included in the Company's investment portfolio. The Company has the ability to trade and transfer securities within the account as long as the balance in the account is at or above the required minimum. The required balance for the period April 1, 2011 through March 31, 2012, is \$135,500,000. At December 31, 2011, the balance in this custodial account was \$173,495,236.

National Health Care Reform - In March 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 were enacted

(collectively, these laws are known as the PPACA or the ACA). The structure of reform changes the fundamentals of health care and health insurance dynamics, including coverage requirements; insurance rules around issuance, rating, and competition; and regulatory and compliance requirements.

The establishment of a minimum medical loss ratio (MLR) took effect in January 2011. Other significant changes, which will take effect over a multi-year period, with many important provisions taking effect in 2014, include: prohibiting health insurers from denying coverage or refusing claims based on pre-existing conditions, expanding Medicaid eligibility, subsidizing individual market and certain small group insurance premiums, providing incentives for businesses to provide health care benefits, establishing health insurance exchanges, makes various changes to Medicare payment formulas, and provides support for public health and medical research.

Certain provisions of the PPACA require state action and implementation. Michigan has developed a strategic plan to implement the PPACA. OFIR has been working with the Michigan Legislature to enact specific amendments to the Michigan Insurance Code that will provide state authority to enforce consumer protections enacted under the Federal law.

D. Uncollectible Assets on Uninsured plans

At December 31, 2011 and 2010, the Company had admitted assets of \$80,417,630 and \$111,894,321, respectively in accounts receivable for uninsured plans. The Company regularly assesses the collectability of these receivables. At December 31, 2011, approximately 13 percent of the balance may be uncollectible and are nonadmitted.

E. Business Interruption Insurance Recoveries – NOT APPLICABLE

F. State Transferable Tax Credits - NOT APPLICABLE

G. Subprime Mortgage Related Risk Exposure – NOT APPLICABLE

22. EVENTS SUBSEQUENT – Management has evaluated all events subsequent to the Statement of Admitted Assets, Liabilities, and Surplus date of December 31, 2011, through the date of its Annual Statement, March 1, 2012, and has determined that there are no subsequent events that require disclosure under SSAP No. 9R, *Subsequent Events*.

23. REINSURANCE

A. Ceded Reinsurance Report

Section 1 – General Interrogatories

1) Are any of the reinsurers, listed in Schedule S as non-affiliated, owned in excess of 10% or controlled, either directly or indirectly, by the company or by any representative, officer, trustee, or director of the company?

Yes () No (X)

If yes, give full details.

2) Have any policies issued by the company been reinsured with a company chartered in a country other than the United States (excluding U.S. Branches of such companies) that is owned in excess of 10% or controlled directly or indirectly by an insured, a beneficiary, a creditor or any other person not primarily engaged in the insurance business?

Yes () No (X)

Section 2 – Ceded Reinsurance Report – Part A

1) Does the company have any reinsurance agreements in effect under which the reinsurer may unilaterally cancel any reinsurance for reasons other than for nonpayment of premium or other similar credit?

Yes () No (X)

a. If yes, what is the estimated amount of the aggregate reduction in surplus of a unilateral cancellation by the reinsurer as of the date of this statement, for those agreements in which cancellation results in a net obligation of the reporting entity to the reinsurer, and for which such obligation is not presently accrued? Where

necessary, the reporting entity may consider the current or anticipated experience of the business reinsured in making this estimate \$_____.

- b. What is the total amount of reinsurance credits taken, whether as an asset or as a reduction of liability for these agreements in this statement? \$ 0.
- 2) Does the reporting entity have any reinsurance agreements in effect such that the amount of losses paid or accrued through the statement date may result in a payment to the reinsurer of amounts that, in aggregate and allowing for offset of mutual credits from other reinsurance agreements with the same reinsurer, exceed the total direct premium collected under the reinsured policies?

Yes () No (X)

If yes, give full details.

Section 3 – Ceded Reinsurance Report – Part B

- 1) What is the estimated amount of the aggregate reduction in surplus, (for agreements other than those under which the reinsurer may unilaterally cancel for reasons other than for nonpayment of premium or other similar credits that are reflected in Section 2 above) of termination of ALL reinsurance agreements, by either party, as of the date of this statement? Where necessary, the company may consider the current or anticipated experience of the business reinsured in making this estimate \$ 0.
- 2) Have any new agreements been executed or existing agreements amended, since January 1 of the year of this statement, to include policies or contracts that were in force or which had existing reserves established by the company as of the effective date of the agreement?

Yes () No (X)

If yes, what is the amount of reinsurance credits, whether an asset or a reduction of a liability, taken for such new agreements or amendments?
\$_____.

24. RETROSPECTIVELY RATED CONTRACTS AND CONTRACTS SUBJECT TO REDETERMINATION

- A. The company establishes a liability for experience rated group contracts and portions of Medicare Part D prescription drug contracts as a result of favorable experience based on an actuarial estimate of underwriting gains which will be returned to customers, either as cash refunds or future rate reductions. Liabilities for experience contracts were \$324,914,341 and \$266,708,275 at December 31, 2011 and December 31, 2010, respectively.
- B. Under terms of most of the experience-rated contracts, recovery, if any, of underwriting losses through future rate increases is not recognized until received.
- C. During 2011 and 2010, net premiums written that are subject to retrospective rating features were \$1,843,379,019 and \$1,890,116,536, respectively, which represents 28% of total net premiums written for both years.
- D. Medical Loss Ratio Rebates Required Pursuant to the Public Health Service Act – The Company has not established a rebate liability as all MLR ratios are above required minimums.

25. CHANGE IN INCURRED LOSSES AND LOSS ADJUSTMENT EXPENSES -

This estimate is based upon historical claims experience modified for current trends and changes in benefit coverage, which could vary as the claims are ultimately settled. Processing expenses related to claims is accrued based on an estimate of expenses to process such claims. Revisions in actuarial estimates are reported in the period in which they arise. Reserves as of December 31, 2010 were \$632,573,250. As of December 31, 2011, \$475,140,192 has been paid for incurred claims attributable to prior years. Reserves remaining for prior years as of December 31, 2011 were \$28,075,830.

26. INTER-COMPANY POOLING ARRANGEMENTS – NOT APPLICABLE

27. STRUCTURED SETTLEMENTS – NOT APPLICABLE

28. HEALTH CARE RECEIVABLES

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The Company receives pharmaceutical rebates from third-party pharmacy benefit managers. Rebate accruals are calculated using recent history of rebates received to develop an estimate. Activity for 2008–2010 is summarized as follows:

Quarter	Pharmacy Rebates as Reported on Financial Statements	Rebates as Billed or Otherwise Confirmed	Actual Rebates Received Within 90 Days of Billing	Received Within 91 to 180 Days of Billing	Received More Than 180 Days After Billing
December 31, 2011	\$ 26,969,000	\$ -	\$ -	\$ -	\$ -
September 30, 2011	27,430,000	26,627,000	-	-	-
June 30, 2011	28,501,000	30,361,000	30,361,000	-	-
March 31, 2011	26,416,000	27,416,000	27,416,000	-	-
December 31, 2010	31,022,000	31,022,000	31,022,000	-	-
September 30, 2010	30,925,000	30,925,000	30,925,000	-	-
June 30, 2010	29,740,000	30,837,000	30,837,000	-	-
March 31, 2010	29,740,000	29,041,000	29,041,000	-	-
December 31, 2009	26,981,000	37,809,000	37,809,000	-	-
September 30, 2009	26,396,000	43,786,000	43,786,000	-	-
June 30, 2009	26,305,000	40,668,000	40,668,000	-	-
March 31, 2009	23,714,000	43,947,000	43,947,000	-	-

29. PARTICIPATING POLICIES – NOT APPLICABLE

30. PREMIUM DEFICIENCY RESERVES

SSAP No. 54 requires companies to record an additional liability known as PDR when expected claim payments or incurred costs, claim adjustment expenses and administration costs exceed the premiums to be collected for the remainder of a contract period.

A state prescribed practice was issued by OFIR which limits the PDR for the company's individual lines of business to no more than two years. At December 31, 2011 and 2010, if such limit was not in place, an additional liability of \$224,127,000 and \$214,584,000, respectively, would be recorded in the statutory basis financial statements.

PDR (included in aggregate health policy reserves) as of December 31, 2011 and 2010, consist of the following:

	Balance 1/1/2011	Additional Reserve	Amortization	Balance 12/31/2011
MIChild	\$ 10,588,000	\$ 15,242,000	\$ 14,002,000	\$ 11,828,000
Individual	121,037,000	76,121,000	49,829,000	147,329,000
Senior Markets	<u>270,722,000</u>	<u>57,672,000</u>	<u>148,307,000</u>	<u>180,087,000</u>
Total	<u>\$ 402,347,000</u>	<u>\$ 149,035,000</u>	<u>\$ 212,138,000</u>	<u>\$ 339,244,000</u>

	Balance 1/1/2010	Additional Reserve	Amortization	Balance 12/31/2010
MIChild	\$ 10,429,000	\$ 14,325,000	\$ 14,166,000	\$ 10,588,000
Individual	83,930,000	82,287,000	45,180,000	121,037,000
Medicare Complementary	<u>265,194,000</u>	<u>149,027,000</u>	<u>143,499,000</u>	<u>270,722,000</u>
Total	<u>\$ 359,553,000</u>	<u>\$ 245,639,000</u>	<u>\$ 202,845,000</u>	<u>\$ 402,347,000</u>

Projected Loss by Year	MIChild	Individual	Medicare Comp	Total
2012 year	\$ 11,828,000	\$ 56,081,000	\$ 67,567,000	\$ 135,476,000
2013 year	<u>-</u>	<u>91,248,000</u>	<u>112,520,000</u>	<u>203,768,000</u>
	<u>\$ 11,828,000</u>	<u>\$ 147,329,000</u>	<u>\$ 180,087,000</u>	<u>\$ 339,244,000</u>

The MIChild PDR was established for the anticipated losses for the contract period in effect ending September 30, 2012 on the state sponsored insurance program, which provides health and dental benefits for uninsured children of Michigan's working families. The outstanding receivable balances for excess losses were \$35,050,000 and \$25,982,000 as of December 31, 2011 and 2010, respectively.

Under the provisions of P.A. 350, the Company operates as the insurer of last resort for the residents of Michigan and must provide and renew coverage for all applicants regardless of health status. In addition, the Company is required to provide health coverage to senior citizens of Michigan at below market subsidized premium rates. Premium rates require prior approval of the State Insurance Commissioner and are reviewed by the Attorney General.

The premium deficiency reserve for the Company's Individual business was established for anticipated losses primarily due to expected future premium rate increases approved by

OFIR being insufficient to cover anticipated benefit trends and medical costs. The Company is projecting losses in this product line for 2012 and 2013.

The PDR for the Company’s Senior Segment (Medicare Complementary and Medicare Advantage) was established for anticipated losses due to the expectation that for several years future Medicare Complimentary premium rates will be insufficient to cover anticipated benefit costs. Currently, premium rates for the Medicare Complimentary products are capped pursuant to an agreement with the Michigan Attorney General through July 31, 2016 and the Company is required to guarantee the renewal of policies that are issued and in effect.

The Senior Segment PDR recorded at December 31, 2011 reflects the loss obligations for years 2012 and 2013 that will be realized in the Senior Segment for the Medicare Complimentary polices that are currently issued given the guarantee renewal of these polices.

Significant increases in membership could occur in the Medicare Complementary product due to the guarantee issue requirement and below market premium rates. The current Senior Segment PDR liability does not include an obligation for future enrollment of new members. Significant increases in membership would result in future losses that could be material.

31. ANTICIPATED SALVAGE AND SUBROGATION

	Coordination of Benefits	
	2011	2010
2007 Accident Year	-	2,176,000
2008 Accident Year	4,833,000	(13,203,000)
2009 Accident Year	(1,400,000)	1,057,790,000
2010 Accident Year	576,478,000	9,025,482,000
2011 Accident Year	4,981,197,000	-

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GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES - GENERAL

1.1

Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer?

Yes [X] No []

1.2

If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations?

Yes [X] No [] N/A []

1.3

State regulating?
Michigan

2.1

Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity?

Yes [] No [X]

2.2

If yes, date of change:

12/31/2010

3.1

State as of what date the latest financial examination of the reporting entity was made or is being made.

12/31/2007

3.2

State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity.
This date should be the date of the examined balance sheet and not the date the report was completed or released.

12/31/2007

3.3

State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date).

04/30/2009

3.4

By what department or departments?
Michigan Office of Financial and Insurance Regulation

3.5

Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with departments?

Yes [] No [] N/A [X]

3.6

Have all of the recommendations within the latest financial examination report been complied with?

Yes [X] No [] N/A []

4.1

During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.11

sales of new business?

Yes [] No [X]

4.12

renewals?

Yes [] No [X]

4.2

During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.21

sales of new business?

Yes [] No [X]

4.22

renewals?

Yes [] No [X]

5.1

Has the reporting entity been a party to a merger or consolidation during the period covered by this statement?

Yes [] No [X]

5.2

If yes, provide the name of the entity, NAIC company code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1

Name of Entity

2

NAIC Co. Code

3

State of Domicile

6.1

Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period?

Yes [] No [X]

6.2

If yes, give full information:

7.1

Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity?

Yes [] No [X]

7.2

If yes,

7.21

State the percentage of foreign control

.....%

7.22

State the nationality(ies) of the foreign person(s) or entity(ies); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(ies) (e.g., individual, corporation, government, manager or attorney-in-fact)

1

Nationality

2

Type of Entity

8.1

Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board?

Yes [] No [X]

8.2

If response to 8.1 is yes, please identify the name of the bank holding company.

8.3

Is the company affiliated with one or more banks, thrifts or securities firms?

Yes [] No [X]

8.4

If response to 8.3 is yes, please provide the names and locations (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.

1

Affiliate Name

2

Location (City, State)

3

FRB

4

OCC

5

OTS

6

FDIC

7

SEC

9.

What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?
Deloitte & Touche, Suite 3900, 200 Renaissance Center, Detroit, Michigan 48243-1704

10.1

Has the insurer been granted any exemptions to the prohibited non-audit services provided by the certified independent public accountant requirements as allowed in Section 7H of the Annual Financial Reporting Model Regulation (Model Audit Rule), or substantially similar state law or regulation?

Yes [] No [X]

10.2

If the response to 10.1 is yes, provide information related to this exemption:

10.3

Has the insurer been granted any exemptions related to the other requirements of the Annual Financial Reporting Model Regulation as allowed for in Section 17A of the Model Regulation, or substantially similar state law or regulation?

Yes [] No [X]

10.4

If the response to 10.3 is yes, provide information related to this exemption:

10.5

Has the reporting entity established an Audit Committee in compliance with the domiciliary state insurance laws?

Yes [X] No [] N/A []

10.6

If the answer to 10.5 is no or n/a, please explain.

11.

What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with an actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?
Dave Nelson FSA MAAA Vice President and Chief Actuary Blue Cross Blue Shield of Michigan, 600 E. Lafayette, MC 2010, Detroit, Michigan 48226

12.1

Does the reporting entity own any securities of a real estate holding company or otherwise hold real estate indirectly?

Yes [] No [X]

12.11

Name of real estate holding company

12.12

Number of parcels involved

.....

12.13

Total book/adjusted carrying value

.....

12.2

If yes, provide explanation.

BLUE CROSS BLUE SHIELD OF MICHIGAN
GENERAL INTERROGATORIES

13. FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:
13.1 What changes have been made during the year in the United States manager or the United States trustees of the reporting entity?

- 13.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located? Yes [] No []
13.3 Have there been any changes made to any of the trust indentures during the year? Yes [] No []
13.4 If answer to (13.3) is yes, has the domiciliary or entry state approved the changes? Yes [] No [] N/A []
14.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards? Yes [X] No []
a. Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
b. Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;
c. Compliance with applicable governmental laws, rules and regulations;
d. The prompt internal reporting of violations to an appropriate person or persons identified in the code; and
e. Accountability for adherence to the code.

- 14.11 If the response to 14.1 is no, please explain:

- 14.2 Has the code of ethics for senior managers been amended? Yes [] No [X]
14.21 If the response to 14.2 is yes, provide information related to amendment(s).

- 14.3 Have any provisions of the code of ethics been waived for any of the specified officers? Yes [] No [X]
14.31 If the response to 14.3 is yes, provide the nature of any waiver(s).

- 15.1 Is the reporting entity the beneficiary of a Letter of Credit that is unrelated to reinsurance with a NAIC rating of 3 or below? Yes [] No [X]
15.2 If the response to 15.1 is yes, indicate the American Bankers Association (ABA) Routing Number and the name of the issuing or confirming bank of the Letter of Credit and describe the circumstances in which the Letter of Credit is triggered.

1	2	3	4
American Bankers Association (ABA) Routing Number	Issuing or Confirming Bank Name	Circumstances That Can Trigger the Letter of Credit	Amount

PART 1 - COMMON INTERROGATORIES - BOARD OF DIRECTORS

16. Is the purchase or sale of all investments of the reporting entity passed upon either by the Board of Directors or a subordinate committee thereof? Yes [X] No []
17. Does the reporting entity keep a complete permanent record of the proceedings of its Board of Directors and all subordinate committees thereof? Yes [X] No []
18. Has the reporting entity an established procedure for disclosure to its Board of Directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict or is likely to conflict with the official duties of such person? Yes [X] No []

PART 1 - COMMON INTERROGATORIES - FINANCIAL

19. Has this statement been prepared using a basis of accounting other than Statutory Accounting Principles (e.g., Generally Accepted Accounting Principles)? Yes [] No [X]
20.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):
20.11 To directors or other officers \$.0
20.12 To stockholders not officers \$.0
20.13 Trustees, supreme or grand (Fraternal only) \$.0
20.2 Total amount of loans outstanding at the end of year (inclusive of Separate Accounts, exclusive of policy loans):
20.21 To directors or other officers \$.0
20.22 To stockholders not officers \$.0
20.23 Trustees, supreme or grand (Fraternal only) \$.0
21.1 Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the statement? Yes [] No [X]
21.2 If yes, state the amount thereof at December 31 of the current year:
21.21 Rented from others
21.22 Borrowed from others
21.23 Leased from others
21.24 Other
22.1 Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments? Yes [] No [X]
22.2 If answer is yes:
22.21 Amount paid as losses or risk adjustment
22.22 Amount paid as expenses
22.23 Other amounts paid
23.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? Yes [X] No []
23.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount. \$.0

PART 1 - COMMON INTERROGATORIES - INVESTMENT

- 24.1 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date (other than securities lending programs addressed in 24.3)? Yes [X] No []
24.2 If no, give full and complete information relating thereto.

- 24.3 For security lending programs, provide a description of the program including value for collateral and amount of loaned securities, and whether collateral is carried on or off-balance sheet (an alternative is to reference Note 17 where this information is also provided). Refer to Note 17.

- 24.4 Does the company's security lending program meet the requirements for a conforming program as outlined in the Risk-Based Capital Instructions? Yes [X] No [] N/A []
24.5 If answer to 24.4 is yes, report amount of collateral for conforming programs. \$27,654,578
24.6 If answer to 24.4 is no, report amount of collateral for other programs.

PART 1 - COMMON INTERROGATORIES - INVESTMENT

24.7

Does your securities lending program require 102% (domestic securities) and 105% (foreign securities) from the counterparty at the outset of the contract?

Yes [X]

No []

N/A []

24.8

Does the reporting entity non-admit when the collateral received from the counterparty falls below 100%?

Yes [X]

No []

N/A []

24.9

Does the reporting entity or the reporting entity's securities lending agent utilize the Master Securities Lending Agreement (MSLA) to conduct securities lending?

Yes [X]

No []

N/A []

25.1

Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 21.1 and 24.3)

Yes []

No [X]

25.2

If yes, state the amount thereof at December 31 of the current year:

25.21

Subject to repurchase agreements

.....

25.22

Subject to reverse repurchase agreements

.....

25.23

Subject to dollar repurchase agreements

.....

25.24

Subject to reverse dollar repurchase agreements

.....

25.25

Pledged as collateral

.....

25.26

Placed under option agreements

.....

25.27

Letter stock or securities restricted as to sale

.....

25.28

On deposit with state or other regulatory body

.....

25.29

Other

.....

25.3

For category (25.27) provide the following:

1	2	3
Nature of Restriction	Description	Amount

26.1

Does the reporting entity have any hedging transactions reported on Schedule DB?

Yes []

No [X]

26.2

If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? If no, attach a description with this statement.

Yes []

No []

N/A [X]

27.1

Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity?

Yes []

No [X]

27.2

If yes, state the amount thereof at December 31 of the current year:

.....

28.

Excluding items in Schedule E-Part 3-Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 1, III - General Examination Considerations, F. Outsourcing of Critical Functions Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook?

Yes [X]

No []

28.01

For agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1	2
Name of Custodian(s)	Custodian's Address
State Street Bank & Trust	801 Pennsylvania Kansas City, MO 64105
Federal Home Loan Bank of Indianapolis	8250 Woodfield Crossing, Indianapolis IN 46240
Fidelity Investments	100 Magellan Way, Covington, KY41015

28.02

For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1	2	3
Name(s)	Location(s)	Complete Explanation(s)

28.03

Have there been any changes, including name changes, in the custodian(s) identified in 28.01 during the current year?

Yes []

No [X]

28.04

If yes, give full and complete information relating thereto:

1	2	3	4
Old Custodian	New Custodian	Date of Change	Reason

28.05

Identify all investment advisors, brokers/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1	2	3
Central Registration Depository Number(s)	Name	Address
105377	Loomis Sayles	One Financial Center, Boston, MA 02111
106810	Munder Capital Management	480 Pierce St. Birmingham, MI 48009-6059
108518	Snyder Capital Management, LP	One Market Plaza,Steuart Tower,Suite1200, San
110441	Western Asset Managemenet Co.	385 East Colorado Blvd, Pasadena CA 91101
50584	Piedmont Investment Advisors, LLC	411 West Chapel Hill Street,Suite 1100,Durham,N
113538	Herndon Capital	Herndon Plaza, 100 Auburn Ave. NE Atlanta, GA
106357	Thornburg Investment Management	2300 North Ridgetop Road, Santa Fe, NM 87506
111298	Arrowstreet Capital, Limited Partnership	200 Clarendon Street, 30th Floor, Boston, MA 02

29.1

Does the reporting entity have any diversified mutual funds reported in Schedule D-Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5 (b) (1)])?

Yes [X]

No []

29.2

If yes, complete the following schedule:

1	2	3
CUSIP #	Name of Mutual Fund	Book/Adj.Carrying Value
78462F 10 3	Spy Exchange Traded Funds	130,636,339
722005 62 6	PIMCO All Asset Fund	16,023,742
29.2999. TOTAL		146,660,081

29.3

For each mutual fund listed in the table above, complete the following schedule:

1	2	3	4
Name of Mutual Fund (from the above table)	Name of Significant Holding of the Mutual Fund	Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to Holding	Date of Valuation
Spy Exchange Traded Funds	Exxon Mobil Corp	4,650,654	12/31/2011
PIMCO All Assets	None - Fund of Funds		12/31/2011

30.

Provide the following information for all short-term and long-term bonds and all preferred stocks. Do not substitute amortized value or statement value for fair value.

	1	2	3
	Statement (Admitted) Value	Fair Value	Excess of Statement over Fair Value (-), or Fair Value over Statement (+)
30.1 Bonds.....	.....3,670,196,447	.....3,769,767,197	.....99,570,750
30.2 Preferred stocks.....	.....1,936,632	.....2,103,070	.....166,438
30.3 Totals.....	.....3,672,133,079	.....3,771,870,267	.....99,737,188

30.4

Describe the sources or methods utilized in determining the fair values:

NAIC/SVO and Custodians

26.2

PART 1 - COMMON INTERROGATORIES - INVESTMENT

31.1

Was the rate used to calculate fair value determined by a broker or custodian for any of the securities in Schedule D?

Yes [X]

No []

31.2

If the answer to 31.1 is yes, does the reporting entity have a copy of the broker's or custodian's pricing policy (hard copy or electronic copy) for all brokers or custodians used as a pricing source?

Yes [X]

No []

31.3

If the answer to 31.2 is no, describe the reporting entity's process for determining a reliable pricing source for purposes of disclosure of fair value for Schedule D.

32.1

Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Securities Valuation Office been followed?

Yes [X]

No []

32.2

If no, list exceptions:

PART 1 - COMMON INTERROGATORIES - OTHER

33.1

Amount of payments to trade associations, service organizations and statistical or rating bureaus, if any?

\$.....4,203,662

33.2

List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to trade associations, service organizations and statistical or rating bureaus during the period covered by this statement.

1 Name	2 Amount Paid
Blue Cross Blue Shield Association	3,962,611

34.1

Amount of payments for legal expenses, if any?

\$.....11,572,776

34.2

List the name of the firm and the amount paid if any such payment represented 25% or more of the total payments for legal expenses during the period covered by this statement.

1 Name	2 Amount Paid
Bodman Longley & Dahling	2,911,296
Hunton & Williams LLP	4,588,846

35.1

Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any?

\$.....288,986

35.2

List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies, officers or departments of government during the period covered by this statement.

1 Name	2 Amount Paid

BLUE CROSS BLUE SHIELD OF MICHIGAN
GENERAL INTERROGATORIES (continued)

PART 2 - HEALTH INTERROGATORIES

1.1

Does the reporting entity have any direct Medicare Supplement Insurance in force?

Yes [X] No []

1.2

If yes, indicate premium earned on U.S. business only

\$.....290,019,157

1.3

What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit?

\$.....0

1.31

Reason for excluding

1.4

Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above.

\$.....0

1.5

Indicate total incurred claims on all Medicare Supplement insurance.

\$.....450,117,520

1.6

Individual policies:

Most current three years:

1.61

Total premium earned

\$.....290,019,157

1.62

Total incurred claims

\$.....450,117,520

1.63

Number of covered lives

.....212,541

All years prior to most current three years:

1.64

Total premium earned

\$.....0

1.65

Total incurred claims

\$.....0

1.66

Number of covered lives

.....0

1.7

Group policies:

Most current three years:

1.71

Total premium earned

\$.....0

1.72

Total incurred claims

\$.....0

1.73

Number of covered lives

.....0

All years prior to most current three years:

1.74

Total premium earned

\$.....0

1.75

Total incurred claims

\$.....0

1.76

Number of covered lives

.....0

2.

Health test:

	1 Current Year	2 Prior Year
2.1 Premium Numerator.....	.....6,439,147,298	.....6,558,172,279
2.2 Premium Denominator.....	.....6,439,147,298	.....6,558,172,279
2.3 Premium Ratio (2.1/2.2).....	.....100.0	.....100.0
2.4 Reserve Numerator.....	.....	.....1,512,843,921
2.5 Reserve Denominator.....	.....1,438,233,717	.....1,512,843,921
2.6 Reserve Ratio (2.4/2.5).....	.....0.0	.....100.0

3.1

Has the reporting entity received any endowment or gift from contracting hospitals, physicians, dentists, or others that is agreed will be returned when, and if the earnings of the reporting entity permits?

Yes [] No [X]

3.2

If yes, give particulars:

4.1

Have copies of all agreements stating the period and nature of hospitals', physicians', and dentists' care offered to subscribers and dependents been filed with the appropriate regulatory agency?

Yes [X] No []

4.2

If not previously filed, furnish herewith a copy(ies) of such agreement(s). Do these agreements include additional benefits offered?

Yes [X] No []

5.1

Does the reporting entity have stop-loss reinsurance?

Yes [] No [X]

5.2

If no, explain:

Blue Cross Blue Shield of Michigan does not utilize stop-loss reinsurance due to the size and stability of the business and sufficient levels of capitalization

5.3

Maximum retained risk (see instructions):

5.31

Comprehensive medical

\$.....0

5.32

Medical only

\$.....0

5.33

Medicare supplement

\$.....0

5.34

Dental and vision

\$.....0

5.35

Other limited benefit plan

\$.....0

5.36

Other

\$.....0

6.

Describe arrangement which the reporting entity may have to protect subscribers and their dependents against the risk of insolvency including hold harmless provisions, conversion privileges with other carriers, agreements with providers to continue rendering services, and any other agreements:

Maintain a restricted custodial bank account determined on the basis of a formula set by BCBSA and continuation insurance coverage with Collins and Associates.

7.1

Does the reporting entity set up its claim liability for provider services on a service date base?

Yes [] No [X]

7.2

If no, give details:

Claim Liabilities are based on paid/incurred claims triangulation

8.

Provide the following information regarding participating providers:

8.1

Number of providers at start of reporting year

.....45,462

8.2

Number of providers at end of reporting year

.....44,984

9.1

Does the reporting entity have business subject to premium rate guarantees?

Yes [X] No []

9.2

If yes, direct premium earned:

9.21

Business with rate guarantees between 15-36 months

\$.....0

9.22

Business with rate guarantees over 36 months

\$.....0

10.1

Does the reporting entity have Incentive Pool, Withhold or Bonus arrangements in its provider contracts?

Yes [X] No []

10.2

If yes:

10.21

Maximum amount payable bonuses

\$.....42,892,640

10.22

Amount actually paid for year bonuses

\$.....42,892,640

10.23

Maximum amount payable withholds

\$.....0

10.24

Amount actually paid for year withholds

\$.....0

BLUE CROSS BLUE SHIELD OF MICHIGAN
GENERAL INTERROGATORIES (continued)

PART 2 - HEALTH INTERROGATORIES

11.1 Is the reporting entity organized as:

11.12 A Medical Group/Staff Model,

11.13 An Individual Practice Association (IPA), or

11.14 A Mixed Model (combination of above)?

Yes []

No [X]

11.2 Is the reporting entity subject to Minimum Net Worth Requirements?

Yes []

No [X]

11.3 If yes, show the name of the state requiring such net worth.

11.4 If yes, show the amount required.

11.5 Is this amount included as part of a contingency reserve in stockholder's equity?

Yes []

No [X]

11.6 If the amount is calculated, show the calculation:

12. List service areas in which reporting entity is licensed to operate:

1

Name of Service Area

13.1 Do you act as a custodian for health savings account?

Yes []

No [X]

13.2 If yes, please provide the amount of custodial funds held as of the reporting date.

13.3 Do you act as an administrator for health savings accounts?

Yes []

No [X]

13.4 If yes, please provide the balance of the funds administered as of the reporting date.

BLUE CROSS BLUE SHIELD OF MICHIGAN
FIVE-YEAR HISTORICAL DATA

	1 2011	2 2010	3 2009	4 2008	5 2007
Balance Sheet Items (Pages 2 and 3)					
1. Total admitted assets (Page 2, Line 28).....	6,961,575,260	6,797,622,759	6,182,476,671	5,127,545,355	5,418,152,286
2. Total liabilities (Page 3, Line 24).....	4,171,923,308	4,038,155,202	3,620,246,663	2,900,138,842	3,012,063,208
3. Statutory surplus.....	2,789,651,952	2,759,467,557	2,562,230,008	2,227,406,513	2,406,089,078
4. Total capital and surplus (Page 3, Line 33).....	2,789,651,952	2,759,467,557	2,562,230,008	2,227,406,513	2,406,089,078
Income Statement Items (Page 4)					
5. Total revenues (Line 8).....	6,395,397,758	6,574,692,435	6,986,393,893	6,806,040,210	6,169,179,593
6. Total medical and hospital expenses (Line 18).....	5,556,566,983	5,793,567,136	6,395,751,497	6,107,862,995	5,685,387,252
7. Claims adjustment expenses (Line 20).....	301,665,387	249,703,600	292,544,193	245,471,136	214,473,405
8. Total administrative expenses (Line 21).....	649,105,046	562,582,673	542,482,269	482,568,788	476,968,610
9. Net underwriting gain (loss) (Line 24).....	(48,836,658)	(73,954,974)	(256,501,066)	(20,598,709)	(318,926,674)
10. Net investment gain (loss) (Line 27).....	199,321,082	211,486,689	241,495,372	62,719,392	224,087,974
11. Total other income (Lines 28 plus 29).....	(36,115,603)	(23,437,699)	3,248,849	(14,421,621)	70,167,452
12. Net income or (loss) (Line 32).....	40,011,408	205,229,863	12,579,275	4,124,919	16,184,425
Cash Flow (Page 6)					
13. Net cash from operations (Line 11).....	286,725,351	167,937,899	(111,885,115)	(72,861,855)	244,386,022
Risk-Based Capital Analysis					
14. Total adjusted capital.....	2,789,651,952	2,759,467,557	2,562,230,008	2,227,406,513	2,406,089,078
15. Authorized control level risk-based capital.....	414,539,579	395,551,652	394,335,822	338,214,279	348,173,506
Enrollment (Exhibit 1)					
16. Total members at end of period (Column 5, Line 7).....	1,489,063	1,530,557	1,667,179	1,730,312	2,581,219
17. Total member months (Column 6, Line 7).....	17,946,160	18,757,734	20,470,544	20,913,922	30,992,554
Operating Percentage (Page 4) (Item divided by Page 4, sum of Lines 2, 3, and 5) x 100 .0					
18. Premiums earned plus risk revenue (Line 2 plus Lines 3 and 5).....	100.0	100.0	100.0	100.0	100.0
19. Total hospital and medical plus other non-health (Line 18 plus Line 19)	86.9	88.1	91.5	89.7	100.0
20. Cost containment expenses.....	1.7	1.5	1.8	1.4	1.4
21. Other claims adjustment expenses.....	3.0	2.3	2.4	2.2	2.1
22. Total underwriting deductions (Line 23).....	100.8	101.1	103.7	100.3	105.2
23. Total underwriting gain (loss) (Line 24).....	(0.8)	(1.1)	(3.7)	(0.3)	(5.2)
Unpaid Claims Analysis (U&I Exhibit, Part 2B)					
24. Total claims incurred for prior years (Line 13 Col. 5).....	503,216,022	574,147,051	611,438,173	554,051,907	551,239,223
25. Estimated liability of unpaid claims - [prior year (Line 13, Col. 6)]	632,573,250	676,209,598	650,538,313	669,330,578	613,072,649
Investments in Parent, Subsidiaries and Affiliates					
26. Affiliated bonds (Sch. D Summary, Line 12, Col. 1).....					
27. Affiliated preferred stocks (Sch D. Summary, Line 18, Col. 1).....					
28. Affiliated common stocks (Sch D. Summary, Line 24, Col. 1).....	1,333,707,057	1,218,983,700	1,149,787,380	993,625,630	968,891,058
29. Affiliated short-term investments (subtotal included in Sch. DA, Verification, Column 5, Line 10).....					
30. Affiliated mortgage loans on real estate.....					
31. All other affiliated.....					
32. Total of above Lines 26 to 31.....	1,333,707,057	1,218,983,700	1,149,787,380	993,625,630	968,891,058

NOTE: If a party to a merger, have the two most recent years of this exhibit been restated due to a merger in compliance with the disclosure requirements of SSAP No. 3, Accounting Changes and Correction of Errors?

Yes [] No []

If no, please explain:

SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS

Allocated by States and Territories

		1	Direct Business Only							
			2	3	4	5	6	7	8	9
State, Etc.		Active Status	Accident & Health Premiums	Medicare Title XVIII	Medicaid Title XIX	Federal Employees Health Benefits Program Premiums	Life & Annuity Premiums and Other Considerations	Property/ Casualty Premiums	Total Columns 2 Through 7	Deposit-Type Contracts
1.	Alabama.....	AL...N.....							.....0	
2.	Alaska.....	AK...N.....							.....0	
3.	Arizona.....	AZ...N.....							.....0	
4.	Arkansas.....	AR...N.....							.....0	
5.	California.....	CA...N.....							.....0	
6.	Colorado.....	CO...N.....							.....0	
7.	Connecticut.....	CT...N.....							.....0	
8.	Delaware.....	DE...N.....							.....0	
9.	District of Columbia.....	DC...N.....							.....0	
10.	Florida.....	FL...N.....							.....0	
11.	Georgia.....	GA...N.....							.....0	
12.	Hawaii.....	HI...N.....							.....0	
13.	Idaho.....	ID...N.....							.....0	
14.	Illinois.....	IL...N.....							.....0	
15.	Indiana.....	IN...N.....							.....0	
16.	Iowa.....	IA...N.....							.....0	
17.	Kansas.....	KS...N.....							.....0	
18.	Kentucky.....	KY...N.....							.....0	
19.	Louisiana.....	LA...N.....							.....0	
20.	Maine.....	ME...N.....							.....0	
21.	Maryland.....	MD...N.....							.....0	
22.	Massachusetts.....	MA...N.....							.....0	
23.	Michigan.....	MI...L.....	5,195,237,413	.869,700,652		375,748,499			6,440,686,564	
24.	Minnesota.....	MN...N.....							.....0	
25.	Mississippi.....	MS...N.....							.....0	
26.	Missouri.....	MO...N.....							.....0	
27.	Montana.....	MT...N.....							.....0	
28.	Nebraska.....	NE...N.....							.....0	
29.	Nevada.....	NV...N.....							.....0	
30.	New Hampshire.....	NH...N.....							.....0	
31.	New Jersey.....	NJ...N.....							.....0	
32.	New Mexico.....	NM...N.....							.....0	
33.	New York.....	NY...N.....							.....0	
34.	North Carolina.....	NC...N.....							.....0	
35.	North Dakota.....	ND...N.....							.....0	
36.	Ohio.....	OH...N.....							.....0	
37.	Oklahoma.....	OK...N.....							.....0	
38.	Oregon.....	OR...N.....							.....0	
39.	Pennsylvania.....	PA...N.....							.....0	
40.	Rhode Island.....	RI...N.....							.....0	
41.	South Carolina.....	SC...N.....							.....0	
42.	South Dakota.....	SD...N.....							.....0	
43.	Tennessee.....	TN...N.....							.....0	
44.	Texas.....	TX...N.....							.....0	
45.	Utah.....	UT...N.....							.....0	
46.	Vermont.....	VT...N.....							.....0	
47.	Virginia.....	VA...N.....							.....0	
48.	Washington.....	WA...N.....							.....0	
49.	West Virginia.....	WV...N.....							.....0	
50.	Wisconsin.....	WI...N.....							.....0	
51.	Wyoming.....	WY...N.....							.....0	
52.	American Samoa.....	AS...N.....							.....0	
53.	Guam.....	GU...N.....							.....0	
54.	Puerto Rico.....	PR...N.....							.....0	
55.	U.S. Virgin Islands.....	VI...N.....							.....0	
56.	Northern Mariana Islands.....	MP...N.....							.....0	
57.	Canada.....	CN...N.....							.....0	
58.	Aggregate Other alien.....	OT...XXX.....	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0
59.	Subtotal.....	XXX.....	5,195,237,413	.869,700,652	.....0	375,748,499	.....0	.....0	6,440,686,564	.....0
60.	Reporting entity contributions for Employee Benefit Plans.....	XXX.....							.....0	
61.	Total (Direct Business).....	(a).....1	5,195,237,413	.869,700,652	.....0	375,748,499	.....0	.....0	6,440,686,564	.....0

DETAILS OF WRITE-INS									
5801.	.....	.....	.....	.....	.....	.....	.....	.....0	.....
5802.	.....	.....	.....	.....	.....	.....	.....	.....0	.....
5803.	.....	.....	.....	.....	.....	.....	.....	.....0	.....
5898.	Summary of remaining write-ins for line 58.....	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0
5899.	Total (Lines 5801 thru 5803 + 5898) (Line 58 above.....	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0

(L) - Licensed or Chartered - Licensed Insurance Carrier or Domiciled RRG; (R) - Registered - Non-domiciled RRGs; (Q) - Qualified - Qualified or Accredited Reinsurer; (E) - Eligible - Reporting Entities eligible or approved to write Surplus Lines in the state; (N) - None of the above - Not allowed to write business in the state.

Explanation of basis of allocation by states, premiums by state, etc.
All Premiums written on Michigan

(a) Insert the number of L responses except for Canada and Other Alien.

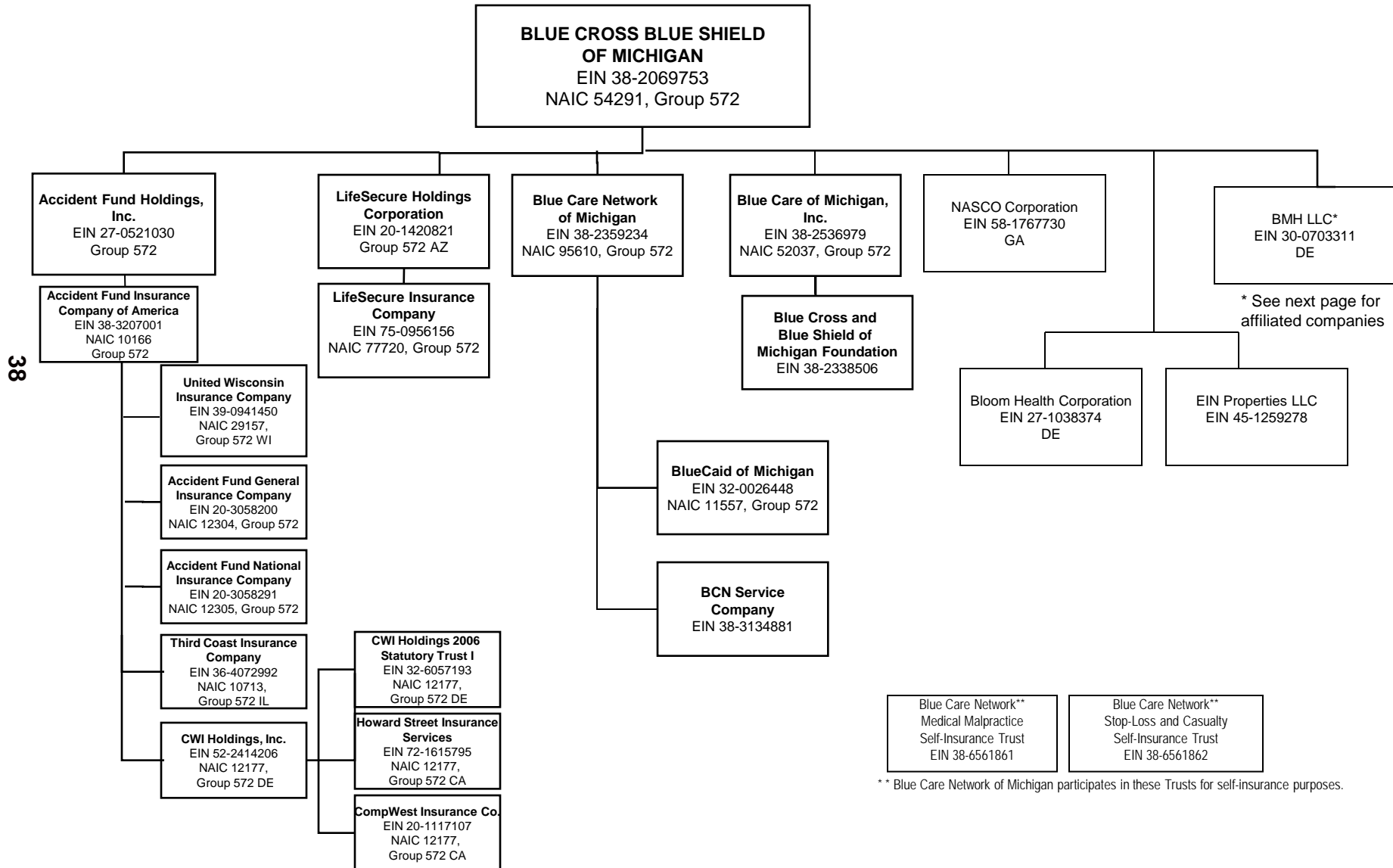


Blue Cross
Blue Shield
of Michigan
Statute as of December 31, 2011 of the
of Michigan

A nonprofit corporation and independent licensee
of the Blue Cross and Blue Shield Association

BLUE CROSS BLUE SHIELD OF MICHIGAN

SUBSIDIARY & AFFILIATE ORGANIZATION CHART



All entities that do not reflect a particular state name or abbreviation are domiciled in Michigan.

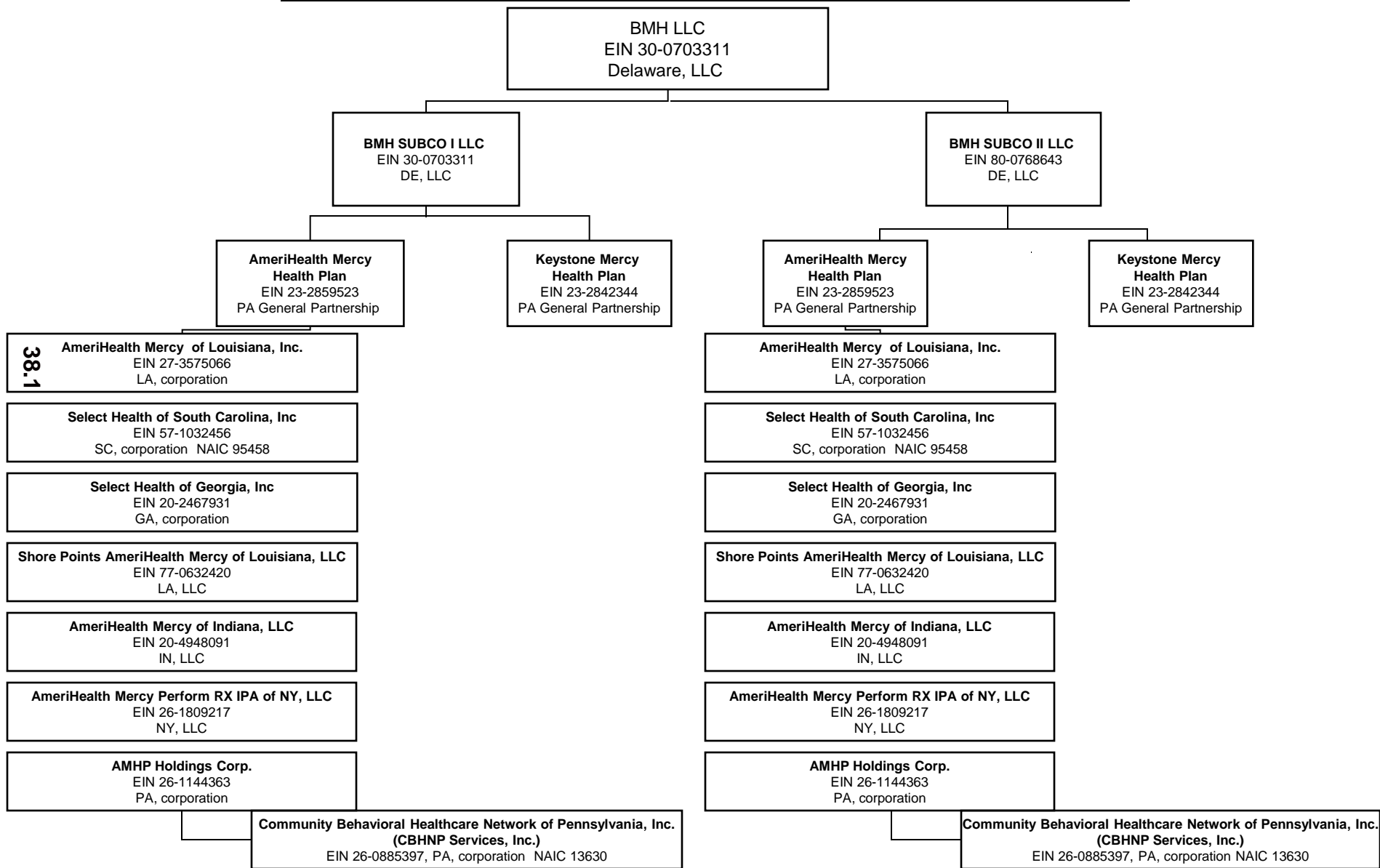


Statement as of December 31, 2011 of the

A nonprofit corporation and independent licensee
of the Blue Cross and Blue Shield Association

BLUE CROSS BLUE SHIELD OF MICHIGAN

SUBSIDIARY & AFFILIATE ORGANIZATION CHART



All entities that do not reflect a particular state name or abbreviation are domiciled in Michigan.

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